Chapter II

2. Performance Audit relating to Government Companies

2.1 Operational performance of Maharashtra Tourism Development Corporation Limited

Executive Summary

Maharashtra Tourism Development Corporation Limited (Company) was incorporated in January 1975 as a wholly owned Government Company to promote and develop tourism in the State. The State has a rich cultural heritage and geographical diversity. The Company has six Regional offices and 23 units in various districts of the State. The Company had leased out 79 properties since inception and operated 18 resorts, three restaurants and two water sports complexes as on 31 March 2010. The Company implements various tourist infrastructure developmental projects with the help of grants from the Government of India (GoI) and Government of Maharashtra (GoM). The performance audit of the Company for the period 2005-06 to 2009-10 was conducted to assess the financial management, project management and operational performance relating to tourist activities.

Tourist Inflow

The overall atmosphere in the State is conducive for tourist development. The tourist inflow in the State ranged between 157.80 lakh and 257.38 lakh tourists during 2005-10.

Despite the Company being in existence for more than 35 years in the tourism sector, the number of foreign tourists who had availed the Company's facilities was negligible during 2005-10.

The accounts of the Company have been pending for finalisation since 2006-07. The Company failed to develop proper mechanism to collect statistics of the tourists in the State as envisaged in the Tourism Policy of 2006 of GoM. The Company did not prepare any Corporate Plan or Action Plan to meet the requirements of Tourism Policy 2006.

Receipt and utilisation of grants

The Company executed various infrastructural projects for tourists with the help of grants from GoI and GoM. The utilisation of funds (2005-06 to 2009-10) from grant receipts of ₹ 617.73 crore was very low. Grants to the extent of ₹ 358.66 crore from GoI and GoM remained unutilised as of March 2010. There was lack of monitoring of the progress of the projects and delays were noticed in completion of projects.

Operational performance

Despite having spent ₹ 23.49 crore on its own resorts during 2005-06 to 2009-10, the Company failed to attract adequate number of tourists to its resorts. The number of foreign tourist who availed the facilities continued to be negligible. Though the number of domestic tourists arriving in the State had increased from 143.30 lakh in 2005-06 to 237.39 lakh in 2009-10, the number of tourists availing facilities of the Company declined from 2.30 lakh in 2007-08 to 2.07 lakh in 2009-10.

The Company had leased out land and resorts to private operators but failed to take effective and timely recovery action against the defaulting lessees. The lease rental could not be recovered in 62 cases out of 79 cases and ₹ 20.32 crore outstanding dues accumulated as of March 2010.

The occupancy norms including benchmark occupancy standards were not fixed by the Company. The average occupancy in the resorts of the Company was 37 to 51 per cent against the All India

Average occupancy of 59.66 per cent during the review period.

Monitoring and internal control

There was no effective internal control mechanism in the Company. The minimum number of Board meetings were not held by the Company. There was lack of monitoring by the top management. The Internal Audit was not commensurate with requirement.

Conclusions and Recommendations

To assist the Company in rectifying the deficiencies noticed, audit has made eight recommendations. These include introduction of effective project monitoring systems, monitoring of utilisation of grants received from the GoI and GoM, improvement in financial management by timely reporting with greater accountability, evolving a systematic policy for leasing of assets and conducting of impact analysis of its operations.

Introduction

2.1.1 The Maharashtra Tourism Development Corporation Limited (Company) was incorporated in January 1975 as a wholly owned Government Company to promote and develop domestic as well as international tourism in the State of Maharashtra. All promotional and commercial activities related to tourism, formerly carried out by the Tourism Department of the Government of Maharashtra (GoM) were transferred to the Company.

The Company is under the administrative control of the Tourism and Cultural Department of the GoM. The Management of the Company is vested with the Board of Directors (BoD) comprising the Chairman, Vice-Chairman, Managing Director and Principal Secretary (Tourism) as additional director. The day-to-day operations were carried out by the Managing Director with the assistance of the Joint Managing Director, General Manager, Deputy General Manager, Chief Accounts Officer, Executive Engineer and Regional Managers at Regional level and Senior Managers at unit level.

The Company had six[∝] Regional offices and 23[∇] units comprising of 18 resorts, three restaurants and two water sports complexes in various districts of the State as of March 2010. The Company since inception leased out 79 properties comprising of 51 resorts, six open lands, 12 restaurants and nine other properties to private operators and one to India Tourism (under Ministry of Tourism, GoI). Out of the 79 properties, 10 resorts, one catamaran and three open land plots were leased out during the review period (2005-10).

[∝] Aurangabad, Mumbai, Nagpur, Nashik, Pune and Ratnagiri.

[∇] **Resorts**-Ajanta Shopping Plaza-T Point, Bhandardara, Bordi, Chikhaldara, Elephanta, Fardapur, Ganpatipule, Harihareshwar, Karla, Lonar, Mahabaleshwar, Malshej Ghat, Matheran, Shirdi, Tadoba, Tarkarli (including Tarkarli Boat House), Titwala, Velneshwar. **Restaurants**-Ajanta, Ellora, Karla. **Water sports complexes**-Katraj, Karla.

Scope of Audit

2.1.2 The present review conducted between February and May 2010 covers operational performance of the Company mainly relating to tourism development, project management, financial management and monitoring by the top management of the Company during 2005-06 to 2009-10. The audit examination involved scrutiny of records maintained at the Head office, three[©] out of six Regional offices and 10 units[α] out of 23 units of the Company, selected for test check on the basis of occupancy and income.

The working of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year 1998-99 (Commercial), GoM. The Report was discussed by the Committee on Public Undertakings (COPU) in July 2001 and recommendations were included in its fifth Report (2001-02). The important recommendations were as under:

- The State Government should give specific amount every year from the budget for development of the infrastructural facilities to bring them to international level.
- The civil works should be evaluated and completed within the prescribed time-limit.
- The Company should effectively implement various tourism schemes of the Central Government keeping in view the commercial attitude.
- The Company should take proper measures while leasing out properties to avoid irregularities.

Action Taken Notes on the recommendations of COPU from the State Government and the Company were discussed by COPU in September 2005. The implementation of COPU recommendations have been included in the present review wherever necessary.

Audit objectives

2.1.3 The objectives of the performance audit were to ascertain whether:

- the Company had prepared a strategic plan for implementation of the State Tourism Policy, 2006;
- the funds received from the Government of India (GoI)/GoM were utilised economically, effectively and efficiently for the purpose for which they were granted;
- the resorts/hotels were able to achieve the targets of occupancy;

[©] Aurangabad, Nashik and Pune.
[α] **Resorts**-Ajanta T-Point, Chikhaldara, Elephanta, Fardapur, Karla, Lonar, Shirdi, Titwala, **Water sports complexes-**Katraj and Karla.

- adequate infrastructural facilities, amenities and manpower were available in the units;
- there was a well-defined marketing policy to tap prospective tourists; and
- the internal control mechanism was effective.

Audit criteria

2.1.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- Tourism policy of GoM;
- Instructions of GoI, GoM and other relevant rules and regulations;
- Guidelines issued by the Ministry of Tourism of GoI/GoM for sponsored schemes;
- All India Average figures of hotel occupancy and fixation/existence of occupancy norms in the Company; and
- Monitoring of targets and achievements by the top management.

Audit methodology

2.1.5 Audit used a mix of the following methodologies:

- examination of agenda papers and minutes of meetings of the BoD and other records/documents maintained by the head office/units;
- examination of budgets, targets fixed and monthly achievement reports submitted by the units;
- analysis of the statistical data compiled by the Ministry of Tourism (GoI) regarding arrivals of tourists; and
- Inter-action with the Management.

Audit findings

2.1.6 Audit explained the audit objectives to the Company during an Entry Conference held on 15 February 2010. The audit findings were reported to the Company and the Government in June 2010 and discussed in an Exit Conference held on 6 October 2010 which was attended by the Managing Director, Joint Managing Director and Chief Accounts Officer of the Company. The Deputy Secretary, Tourism and Cultural Department of GoM also attended the Exit Conference. The views expressed by the Management have been considered while finalising the review. The audit findings are discussed below:

State Tourism Policy

2.1.7 The overall atmosphere in the State is conducive for tourism development. Domestic and foreign tourist visiting the State more than doubled during the last decade which indicate growing tourism in the State .

In order to have planned efforts for tourism development, GoM approved Tourism Policy 2006 (TP) which became operative from 1st November 2006 for ten years or until substituted by a new policy. The scope of the TP included tourism projects in the private sector, State public sector and the co-operative sector. TP had provided for a 23 point Action plan to be implemented in the next five years with a long-term vision for 2025.

The main features of the Policy were as under:

- Development of infrastructure at tourist destinations in the State by giving preference to weekend destinations. In addition, strengthening the rail linkage and air connectivity of the important tourist destinations in coordination with concerned Departments and Ministries.

- Strengthening of Bed and Breakfast scheme and Incentive scheme to boost rural tourism.

- Development of cultural tourism, agricultural and wine tourism, pilgrimage circuits and fort circuits.

- Creating awareness among people about the importance of tourism and safety/environmental awareness.

- Formation of a committee by the State Government comprising of Department of Tourism, MTDC and others to play a co-ordinating role along with organisational review of tourist activities.

- Development of a mechanism for collecting Tourism Survey Statistics in the State. The Company was to tie up with related institutions in the State and collect monthly data.

- Conducting periodic tourism survey and impact analysis of tourism projects.

2.1.8 The implementation of the Tourism Policy revealed the following deficiencies:

- The Company being the State's Public Undertaking in the tourism sector, incorporated specifically to promote and develop the tourism in the State, should have made great strides in developing tourist facilities in the State. However, we noticed that the Company had neither identified critical/nodal areas for effecting micro-level planning to augment tourism nor evolved clear milestones which were overall or destination-specific for development of tourism in the State.

- The Company had not prepared a concrete Corporate Plan or five years Action Plan keeping in view the requirements of the TP.

- The Company had no system of collecting tourist statistics as per the TP. Ministry of Tourism (MoT), GoI, with the consent of the State Government, appointed (December 2008) A C Nielsen, as consultant for collecting tourist survey statistics.[∝] It was noticed that the consultant had furnished only the data relating to the number of tourists who had arrived in the State. The Company had also not insisted for other details necessary for analysing the scope for further tourism development. Thus, no structured mechanism of collecting tourist statistics was developed in the State by the Company even after expiry of the first four years of the operationalising of TP.

The Management admitted (August 2010) its failure to collect tourist data, but stated that tourist inflow to the Company's unit was not at all poor and was at par with the best in the industry at similar places.

The reply of the Company was not based on facts as the percentage of tourists availing of the Company's infrastructural facilities was just around one *per cent* during the review period (refer **paragraph 2.1.9** *infra)* and the fact that tourist inflow was at par with the best in the industry could not be verified by audit in absence of documentary evidence.

Company's share in tourist traffic

2.1.9 The tourist inflow in the State during the last decade (2001-2009) increased by more than double. The inflow of domestic tourists which was 84.80 lakh in 2001 increased to 133.92 lakh in 2004 and was 237.39 lakh up to 2009. Similarly, the inflow of foreign tourists (FT) which was 9.15 lakh in 2001 increased to 12.18 lakh up to 2004 and to 19.99 lakh up to 2009.

[∝] The Consultant was to collect apart from tourist arrival data, the month-wise expenditure on tourism by the State government, employment in accommodating units, estimated direct employment generation, profile of visitors, their expenditure patterns, purpose of visit and occupancy rates.

The details of tourist inflow in the State and the tourists who availed accommodation facilities of the Company's resorts/hotels for the five years ending 2009-10 were as under:

(Numbers in lakh)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
No. of foreign tourists who visited India•	99.50	117.48	132.67	141.13	137.18
Tourists who visited Maharashtra					
Domestic•	143.30	168.80	192.27	205.53	237.39
Foreign•	14.50	17.12	19.33	20.57	19.99
Total	**157.80**	**185.92**	**211.60**	**226.10**	**257.38**
Percentage of foreign tourists visiting the State to total tourists	9.19	9.21	9.14	9.10	7.77
Percentage increase of total tourists based on previous year inflow	--	17.82	13.81	6.85	13.83
No. of tourists who availed accommodation in the Company's resorts/hotels*					
Domestic	1.83	2.07	2.29	2.06	2.05
Foreign	0.05	0.05	0.01	0.02	0.02
Total	**1.88**	**2.12**	**2.30**	**2.08**	**2.07**
Percentage of tourists (both domestic and foreign) who availed the Company's facilities	1.19	1.14	1.09	0.92	0.80

(Source: India Tourism Statistics, Government of India for calendar years 2006 and 2009)
**Data furnished by the Company*

The following observation are made:

The number of foreign tourists availing the Company's infrastructural facilities was negligible.

- Though the tourists visiting the State indicated an increasing trend during the period 2005-06 to 2009-10, the arrival of foreign tourists to the State was less than 10 *per cent* of the total number of tourists visiting the State and the number of foreign tourists who availed the Company's facilities was negligible during the period. The number of foreign tourists who availed the Company facilities was 4,678 in 2005-06 which dropped to 2,008 in 2009-10. This indicated the inability to attract international tourists and therefore did not fulfil the objective of the TP to attract this category of tourists.

No regional delineation of tourist inflow and segregation of tourist arrivals data was maintained by the Company.

- The percentage increase compared to previous year tourist inflow which was 17.82 *per cent* in 2006-07 came down to 6.85 *per cent* in 2008-09 and again increased to 13.83 *per cent* in 2009-10.

- In order to ascertain the regional delineation of the growth in tourist traffic to the State, the percentage break-up of inflow to Mumbai Metropolitan Region and the rest of the State was necessary. However, the Company did not maintain such details.

• Tourist data for the years are from January to December.

- We noticed that lack of aggressive marketing, providing of basic essential amenities in the hotels such as full back up of power, internet facilities, good furnishing of the rooms *etc*., and failure to undertake periodic up-gradation and renovation of the resorts to compete with the private operators in the State were the main reasons for poor performance.

- The Company failed to conduct impact analysis/tourism survey as required by the TP, 2006 to ascertain the impact of its tourist development activities on the tourism industry in the State.

- The Company had incurred ` 23.49 crore on development of own resorts during the period under review. Despite this, in five resorts, no significant increase in the tourist arrival to the Company's resorts was noticed as detailed below:

(Number of tourists)

Name of the resort	2005-06	2006-07	2007-08	2008-09	2009-10
Elephanta	636	581	632	663	196
Karla	22,966	32,574	36,961	30,293	29,351
Titwala	1,185	1,530	1,542	1,426	1,405
Matheran	11,613	13,009	14,711	3,067	824
Harihareshwar	8,821	8,465	8,840	7,860	7,704

(Source: Information furnished by the Company)

The Management stated (August 2010) that the Company had implemented various tourism development projects with the help of Government grants in the State. It was further stated that it had a proper mechanism for redressing of customer feedback and complaints.

We noticed that the Company despite incurring huge expenditure on development failed to attract adequate number of tourists to its resorts. The reply regarding having proper mechanism for redressing the customers' grievances and complaints was also not based on facts as there was no Management Information System format prescribed for giving a feedback summary to the Headquarters of the Company from its resorts. There was no mechanism for taking remedial measures on the consumer complaints though consumer satisfaction plays an important role in the service industry. Therefore, action needs to be taken to build tourist confidence and interest. The consumer dissatisfaction and deficiencies in feedback mechanism are discussed in **paragraph 2.1.11** *infra*.

Operational performance

2.1.10 In the beginning of the review period (2005-06), the Company was operating 34 units comprising 28 resorts, three restaurants, two water sports complexes and one catamaran. During the review period, the Company had leased out 10 resorts and one catamaran and the Company was operating 23 units comprising of 18 resorts, three restaurants and two water sports complexes only as on 31 March 2010. The operational performance of these units have been discussed in the succeeding paragraphs.

Performance of Resorts

2.1.11 The performance details indicating number of units operated, occupancy percentage achieved by these units during the period 2005-06 to 2009-10 is given in the following table.

Year	2005-06	2006-07	2007-08	2008-09	2009-10
No. of resorts operated	28	22	20	20	18
No of room days	2,52,741	2,37,786	2,13,278	2,12,622	2,09,833
Overall occupancy (In percentage)	37	43	50	51	50
No. of resorts having occupancy below 20 *per cent*	10	4	2	1	2
No. of resorts having occupancy ranging from 20 to 55 *per cent*	16	16	13	15	11
No. of resorts having occupancy over 55 *per cent*	2	2	5	4	5

(Source: Information compiled from the records of the Company)

Audit analysis of the performance of resorts revealed the following:

- The number of room days declined from 2,52,741 in 2005-06 to 2,09,833 in 2009-10 mainly due to leasing of ten resorts to private operators. We noticed that in Matheran resort there was a decrease in availability of room days ranging between 18 and 89 *per cent* during 2007-08 to 2009-10 due to delay in completion of repair of rooms. The resort at Elephanta had to be closed down from August 2009 in the absence of timely repair and renovation works.

- The Company had neither fixed any break-even point nor target for occupancy in its resorts though it was a vital parameter to judge its profitability and performance. The absence of targets for occupancy, break-even occupancy as well as long-term planning to improve the occupancy indicates the lackadaisical approach of Management in improving the business and its monitoring.

- Reasonably good and economically attractive and efficient tourist friendly services are the basic requirements of the hospitality industry. Hence, resorts/hotels need to maintain complaints/feedback mechanism to ensure prompt redressal of client complaints and improvement in services. A test check of customer feedback as made available to audit and prevailing in the Company revealed that there was dissatisfaction about maintenance of rooms, services rendered, availability of basic amenities and quality of food served in the resorts.

- The Company website had a provision to register the online complaints. However, it was noticed that the customer feedback provision on the website had not been activated thereby defeating the purpose for which it was created.

- The system of receiving complaints and taking corrective action was not monitored by the Head office either through periodic Review meetings or through linking receipt of customer feedback on every room occupied at the time of checkout. More systematic approach for redressal of customers' complaints was required to improve the occupancy in the Company resorts.

The Company had not fixed the occupancy norms and the occupancy was lower than the All India average.

- As against the All India Average (AIA) occupancy norms of 59.66 *per cent* during the review period in the hotel industry, the overall percentage of occupancy achieved by the Company, however, ranged between 37 and 51 *per cent*. The occupancy achieved during 2005-06 to 2009-10 was below 20 *per cent* in one to 10 resorts, 20 to 55 *per cent* in 11 to 16 resorts and occupancy achieved was more than 55 *per cent* in only two to five resorts.

- The occupancy percentage was low and ranged between 38 and 47, 29 and 39 and 11 and 39 at Mahabaleshwar, Chikhaldara and Tadoba resorts respectively which were located at prime tourist places. Lack of infrastructure facilities /amenities was the main reason for low occupancy. The reasons for the same were not analysed periodically by the top Management for taking timely remedial measures to improve the occupancy.

- Occupancy in Titwala and Lonar resorts during the five years ending 31 March 2010 ranged between 38 and 56 *per cent* and 20 and 24 *per cent* respectively.

The Management stated (August 2010) that there was increase in occupancy percentage as the number of resorts having occupancy below 20 *per cent* decreased from 10 in 2005-06 to two in 2009-10 and the overall occupancy in the Company's resorts was at par with any other similarly placed budget hotels. However, the reply does not address the issue as to why the Company's occupancy percentage was less than the AIA occupancy levels and the continued operation of its loss-making resorts.

The comparative table of occupancy percentages achieved by the Company, for 2005-06 to 2009-10 is given below:

(In percentage)

Year	All India Average occupancy	Maharashtra (Company)
2005-06	67.70	37
2006-07	60.40	43
2007-08	59.60	50
2008-09	55.30	51
2009-10	55.30*	50

(Source: Information compiled from the data furnished by the Company)

*As AIA occupancy for 2009-10 of MoT, GoI was not available so far, the previous years occupancy percentage has been considered for comparison.

Though the occupancy percentage of the Company registered an increasing trend over the review period, there was still scope for improvement of its performance to attain AIA occupancy levels.

Fixation of tariff

2.1.12 The Company had not evolved a policy for fixation/revision of resort and hotel tariff. The Company applied different tariff rates for different periods of the year categorised as 'seasonal' and 'non seasonal'. The tariff was revised based on proposals received from its resorts managers, which in turn were based on local survey, salaries and operational overheads.

It was noticed in audit that:

- The tariff fixation was done without any impact study in view of the low occupancy rate and a comparison with private operator service/food tariff rates. We observed that higher tariffs of the Company were a considerable disincentive to customers.
- No systematic variance analysis of unit-wise tariff fixation was attempted. The feedback on tariff from local unit managers did not indicate whether comparison with private operator tariffs in the area was done.
- The Chief Accounts Officer of the Company with the approval of the Managing Director recommended (2004-05) to appoint a Committee of professionals to rationalise the tariff. However, no action had been taken by the Company on the recommendation so far (December 2010).
- The menu rates were fixed for restaurants/resorts based on availability of raw materials and local market conditions on *ad-hoc* basis (December 2010). The Company was following norms fixed in 1987 which had not been revised till date (December 2010).

Leasing of assets

Land measuring 75.19 lakh square metres was lying unused.

2.1.13 The Company possessed unused land of 75.19 lakh square metres details of which are indicated in **Annexure-7**; out of which 11 *per cent* land (8.19 lakh square metres) was encroached by the local people and 86 *per cent* land (64.80 lakh square metres) was under Coastal Regulation Zone (CRZ) The balance three *per cent* (2.20 lakh square metre) was lying idle with the Company. The Company should have taken effective measures for development of the land by taking steps to remove the encroachments on land and obtaining the statutory permission of Union and State government authorities for development of CRZ land by exploring environmentally sustainable eco-tourism projects.

The Company was leasing out from time to time its resorts to private operators. In addition, the Company was also entrusted (1990) by the State Government with the task of leasing out land transferred to it for development of Holiday Resorts. The Company had not formulated a systematic leasing policy for leasing out its units and decision to lease out resorts was taken on case to case basis. Since inception, the Company had leased out 55 properties for short-term period (five to 10 years) and 24 properties for long-term period (30 years and above) as detailed below:

Particulars	Resorts	Open land	Restaurants	Shops and others	Total
Short-term lease	30	3	12	10	55
Long-term lease	21	3	-	-	24
Total	**51**	**6**	**12**	**10**	**79**

During the period 2005-06 to 2009-10, the Company had leased out 10 resorts and land plots measuring 20,69,060 square metres, of which lease agreements in respect of lease of 7,20,000 square metres had not been executed till date (December 2010). Out of 10 resorts privatised, six resorts were incurring losses and four resorts were earning profits at the time of leasing out. The reasons/justifications for leasing out the profitable resorts were not on record. In the absence of definitive and structured policy for leasing, the Company had not worked out the viability analysis for running the resorts.

COPU, while discussing the earlier review of the Company (Audit Report 1998-99), instructed the GoM/Company to avoid irregularities and protect the financial interest of the Company in leasing out its properties. However, no remedial measures were taken by the Company and irregularities still persisted which are discussed below:

- Though the leasing of assets was being done by inviting tenders, the Company had not fixed upset price systematically and percentage increases in lease rentals were not predetermined while renewing the lease period.
- Although, there was a clause to monitor the performance of leased assets in the lease agreements, the Company did not monitor their performance.
- The Company had not worked out the amount payable to the Government on the Government land leased out to private operators. The Company also did not ensure the development of land as envisaged in lease agreements. As a result, the leased out land to private operators remained undeveloped.

The lease rental amounting to ` 20.32 crore could not be recovered in 62 cases.

Failure of the Company in taking immediate action for recovery of outstanding dues of lease rentals resulted in accumulation of dues. The outstanding dues of lease rentals (including interest for delayed payment) as of March 2010 against short-term leases was ` 1.01 crore in 42 cases and ` 19.31 crore in respect of long-term leases in 20 cases.

As per the directives of the GoM and clause in the lease agreements entered into for long-term leases, lease rental stipulated at a percentage of turnover of the business carried out or a minimum guarantee amount prescribed whichever is higher was payable by the lessee from the fourth year onwards of the lease period. However, the Company did not ensure the receipt of certified Financial Accounts from the lessees in 19 long-term leases for assessing the lease rentals payable based on turnover. It continued to collect only the minimum guarantee amount.

- On examination of 32 out of 79 lease cases, deficiencies in leasing of the properties such as non-execution of lease agreements, defective agreements, non-payment of lease rent and other statutory dues, non-development of land leased out, *etc* were noticed in five cases as detailed in **Annexure-8**.

Implementation of GoM schemes

2.1.14 The Company implemented (1997 and 1999) two schemes *viz.* Bed and Breakfast (B&B) scheme and Incentive scheme on behalf of GoM. The performance under these two schemes by the Company was as under:

Bed and Breakfast Scheme

2.1.15 The B&B scheme was intended to create facilities for travellers at remote destinations where hotel accommodation is not available and to provide income to the local people and generate employment through tourism development. Under this scheme, houses with two to 10 beds were required to be registered with the Company by paying processing fee. During the period 2005-06 to 2009-10 the Company had received 476 applications for registration out of which 426 applications were registered after collection of the processing fee of ` 26.89 lakh. Audit observed that no system was evolved for monitoring the progress of the scheme. No mechanism for analysing the customer feedback on the registered operators of the B&B scheme was in existence.

Incentive scheme

2.1.16 As per the TP 2006, under incentive scheme, new eligible units were exempted from payment of luxury tax, entertainment tax and stamp duty. In addition, electricity charges of the unit would be calculated as per industrial tariff rate which was lower than the commercial rate and 75 *per cent* exemption from registration charges and 50 *per cent* concession from payment of permit charges for sight seeing buses were also given.

The Company was appointed as the nodal agency by the Government for issuing Eligibility Certificate (EC) to eligible units in the State to boost tourism industry. Under the Scheme, the Company had issued 97 ECs and received processing fees and service charges of ` 29 lakh. A test check of fifteen cases revealed that the Company had issued ECs to three units which had not fulfilled the required criteria as indicated below:

- As per the eligibility criteria stipulated in the TP, hotel projects, *inter alia*, should have facilities in the 1 to 5 star categories. The unit should also obtain category certificate from the concerned authority. However, the

Company issued (November 2009) EC to Akruti Hospitality Private Limited, Pune for availing the concession of ` 8.44 crore without ensuring the availability of star category certificate for the unit.

- As per the eligibility criteria, the unit should be in possession of required land with clear title. However, Provisional EC was issued (September 2007) to Kings Constructions for availing concession amounting to ` 4.25 crore without clear title to the land which was under dispute.

- According to TP 2006, for setting up of a children's amusement park possession of minimum 20,000 square metre land was the eligibility criteria. However, the Company issued provisional EC (April 2008) to Konkan Ratna Holiday Resorts, Satara though the agency had not fulfilled the eligibility criteria and possessed only 18,000 square metre of land with an assurance to procure additional land in future. However, the agency did not procure additional land. Despite this, the concession of ` 10.78 crore was afforded to the agency.

Issue of eligibility certificate to three ineligible units resulted in revenue loss of ` 23.47 crore.

Thus, the Company issued ECs without fulfilment of the required criteria by the above units causing revenue loss to GoM amounting to ` 23.47 crore.

Marketing strategy

2.1.17 Advertisement and publicity is necessary for business promotion and competition. The press and electronic media provide an easy mode of publicity for attracting tourists from abroad and different parts of the country. In order to target various segments of customers it was necessary that resorts provide facilities expected by the tourists of all the categories. Resorts/Hotels were required to be classified/graded so that prospective tourists can select the resorts of their choice. We noticed the following deficiencies:

- The Company did not have a well-defined marketing strategy of its own to tap prospective tourists to its resorts/hotels.

- The Company had not taken adequate and aggressive steps to promote its resorts and other facilities to attract tourists though it was required to gear up in the face of stiff competition from the private operators.

- The Company did not have a policy of grading its resorts/hotels on the basis of customer feedback/assessment. This had the potential of discouraging tourists to opt for the Company's resorts.

- The Company had entered into agreements with travelling agents/tour operators to attract more tourists to its resorts without fixing any target for minimum business expected from them. In the absence of the enabling clause of minimum business in the agreement, the Company could not get any benefit from the tour operators.

- The Company's facility of online booking through a networking of the Reservation Centre at Head Office with unit level Resorts/Hotels was not available.

Receipt and utilisation of grants

Publicity revenue grants

2.1.18 In order to accelerate tourism development/growth in the State, GoM had disbursed publicity grants amounting to ` 40.11 crore as revenue grants to the Company during the period 2005-06 to 2009-10. GoM while sanctioning the grants specifically stated that the Company should furnish its plan for spending the amounts to the Government for approval and the amount spent should not exceed the amount sanctioned. Amount spent in excess of the sanction was not reimbursable by the Government.

The Company carried out publicity through advertisements in print and visual media, exhibitions, fairs and festivals *etc*., to showcase Maharashtra and to attract more tourists to the State. The utilisation of grant received by the Company towards advertisement during the period 2005-06 to 2009-10 was as follows:

(` in crore)

Year	Receipt	Expenditure	Balance
2005-06	3.24	3.24	---
2006-07	15.00	5.29	9.71
2007-08	15.00	18.61	(3.61)
2008-09	5.00	2.46	2.54
2009-10	1.87	3.18	(1.31)
Total	**40.11**	**32.78**	**7.33**

(Source: Information furnished by the Company)

The deficiencies noticed in utilisation of grants by the Company were as under:

- The Company without evolving any advertisement policy and formulating a meaningful media plan after taking into account the circulation of newspapers and magazines, released advertisements on *ad-hoc* basis. This ad-hocism in the placement of advertisements did not have any positive impact on tourist arrivals to the Company's resorts which declined during the period.

- The Company had not fixed criterion for empanelment of advertising agencies. Agencies were short-listed on inviting the leading advertising agencies to present their concept and media plan. However, the Company did not call for the rates from the agencies to ascertain the reasonability and competitiveness of rates at the time of short-listing. Thus, there was lack of transparency in the process. No agency was empanelled from 2008-09 onwards.

Unfruitful expenditure on publicity campaign

2.1.19 In order to promote tourism in the State, the Company entered into a Memorandum of Undertaking (MoU) in July 2009 with Kuoni Travels India Private Limited (SOTC). As per the MoU, Joint Promotion campaign was to be implemented with equal share of estimated expenditure of ` two crore through a media plan.

We noticed that:

- The brochure or advertisement published by SOTC did not mention that it was a joint campaign with the Company and only fixed the logo of the Company on the advertisement and printed brochure;
- The contents of the advertisements were for promotion of package tours conducted by SOTC in Maharashtra;
- The proposal of each sharing the expenditure of ` two crore equally was approved by the Managing Director without the approval of BoD;

The joint publicity with SOTC did not earn any benefit to the Company in terms of promoting its own resorts.

- The expenditure of ` one crore incurred by the Company was without accrual of any benefits to the Company. There was no tie-up as regards the utilisation of the Company's resorts in tours conducted by the SOTC. Thereby, the Company failed to protect its financial and business interest.

Thus, the tours conducted by SOTC for private resorts/destinations and sharing of expenditure by the Company for such advertisement was an undue benefit to SOTC.

The Management stated (August 2010) that the MoU for publicity campaign with SOTC was a business decision which was well within the powers of Managing Director of the Company and was also approved by the BoDs in its subsequent meeting.

The Management's contention is not justified as it did not explain how a decision which did not protect the financial and business interest of the Company and gave an undue benefit to SOTC could be labelled as a business decision.

Capital grants

2.1.20 The Company received capital grants of ` 74.86 crore for 41 projects from GoI (through Ministry of Tourism) and ` 542.87 crore for 37 projects from GoM totalling to ` 617.73 crore during 2005-06 to 2009-10 for implementing various tourism projects.

The year-wise receipt and utilisation of capital grants during 2005-06 to 2009-10 was as under:

(` in crore)

Sl. No.	Year	Opening balance	Receipts		Total grant available	Utilisation of grants	Closing balance	Percentage utilisation to grants available
			GoI	GoM				
1	2005-06	40.15	18.63	73.53	132.31	22.82	109.49	17.25
2	2006-07	109.49	22.48	179.03	311.00	23.73	287.27	7.63
3	2007-08	287.27	9.85	92.10	389.22	80.47	308.75	20.67
4	2008-09	308.75	23.90	130.71	463.36	138.16	325.20	29.82
5	2009-10	325.20	0	67.50	392.70	34.04	358.66	8.67
	Total		**74.86**	**542.87**		**299.22**		
			617.73					

(Source: Information furnished by the Company)

It could be seen from above details that as on 31 March 2010, the grants of ` 358.66 crore remained unutilised. The scrutiny of records of grants received from GoI and GoM and the utilisation for projects revealed the following deficiencies:

- COPU in its fifth Report (2001-02) recommended that the Company should implement the tourism schemes keeping in view the commercial attitude and utilise entire grant for development of the infrastructure facilities to bring them to international level. However, we noticed that the grants received were not fully utilised and were parked in Fixed Deposit/Current accounts as discussed in **paragraph 2.1.31** *infra*.

- The utilisation of grants was very low and ranged between 7.63 and 29.82 *per cent* of the available grants during 2005-06 to 2009-10. The low utilisation of grants was mainly due to non-availability of land, requirement of approval from various authorities, non-preparation of feasibility reports and plans before submission of proposals which were indicative of faulty planning. Some of the interesting cases are discussed in **paragraphs 2.1.22** to **2.1.28** *infra*.

- The Company had not maintained records to monitor the utilisation of grants for the stated purpose which indicated lack of monitoring of the projects.

- As per conditions of sanction of grant, the Company had to surrender grants if the same was not utilised within the period of six months from the date of receipt. It was, however, noticed that the unutilised grants exceeding six months at the end of March 2010 amounting to ` 291.16 crore had not been surrendered to GoI and GoM till date (December 2010).

- The Company had utilised without the permission of GoI an amount of ` 3.57 crore for execution of works not included in the sanction orders of five projects.

- The grants which were not meant for immediate use were invested in short-term fixed deposits which earned interest of ` 103.57 crore during 2006-07 to 2009-10. As per GoI directives (December 2006) the Company had to utilise the interest earned on the unspent grants on the project itself or surrender the same to the GoI. The Company neither utilised the interest earned for capital works of the project nor surrendered the same to GoI/GoM.

The Management stated (August 2010) that the low utilisation of grant was not due to faulty planning but due to nature of the projects and difficulty in getting clearance, particularly from concerned Forest and environmental authorities. The Company had approached GoI for time extension in January 2010 and obtained the same in April 2010 for the projects.

The reply was not convincing as the Company after a delay of 11 to 28 months forwarded a consolidated proposal for extension of time to GoI instead of seeking extension of time immediately as per terms of sanction. Further, the fact remains that the work on projects was launched without due regard to statutory clearances and permissions.

Deficiencies in execution of projects

2.1.21 The Company implemented the tourism projects from the capital grants received from the GoI and GoM. The GoI grants were received through GoM. Audit test checked 20 projects out of 49 projects (GoI-19 and GoM-30) undertaken by the Company. The details of grants received, utilised and balance thereof were as under:

Particulars	GoI		GoM	
	Number of projects	Amount (` in crore)	Number of projects	Amount (` in crore)
Grant received	15	68.82	5	317.40
Grant utilised	15	26.43	5	98.91
Unutilised grant	15	42.39	5	218.49

The project-wise details of unutilised grants as on 31 March 2010 are given in **Annexure-9.**

In seven test checked cases, we noticed submission of proposals without ensuring availability of land, non-conducting feasibility study, abnormal delay in execution of projects, *etc.* as discussed in subsequent paragraphs.

2.1.22 The project relating to development of Arts and Crafts Village at Film City, Mumbai was to be undertaken in two phases. Under Phase I, land development work and under Phase II, construction of amphitheatre was proposed for providing stage for Marathi classical and folk performances.

Mis-statement of fact regarding availability of land by the Company resulted in non-utilisation of grants.

We noticed that the Company demanded (August 2007) a grant of ` 6.71 crore from GoI by submitting the proposal stating that the land for the project was available with the Company/GoM. Accordingly, GoI sanctioned (September 2007) grant of ` 3.87 crore for the project and released 80 *per cent* grant of ` 3.09 crore for the project in September 2007.

The Company invited tenders in 2007-08 for the work though the land was not available with the Company. The tender was subsequently cancelled and the Company had neither utilised the grant for the project nor surrendered the same to GoI. The mis-statement of the fact regarding the availability of land resulted in non-execution of project despite availability of funds.

The Management stated (August 2010) that the BoDs of Film City approved grant of land in July 2006. However, subsequently it was noticed that the rights of land were not with the Film City.

The fact remains that the proposal for the project was submitted without ensuring the availability of land.

2.1.23 The scope of Destination Development of Karla included construction of water slides, landing pools and development of children's play area at Karla resort and construction of public toilets and parking space at foot of Karla caves. Against the estimated cost of the work of ` 4.85 crore, total grant received (December 2005 and March 2007) by the Company was ` 4.42 crore (GoI- ` 3.88 crore and GoM-` 0.54 crore). The Company utilised ` 2.09 crore (GoI-` 1.82 crore and GoM-` 0.27 crore) and the grant of ` 2.33 crore remained unutilised (December 2010).

We noticed that though the civil work was not completed, the Company purchased (September 2009) water park equipments for ` 95.60 lakh from Maharashtra Small Scale Industries Development Corporation Limited (MSSIDC). The procured equipment was lying idle in the open area of the Karla resort since September 2009. The warranty period of equipment supplied (12 months from the date supply) also expired by September 2010. The procurement of equipment in advance on single tender basis when civil work had not been completed resulted in idling of equipment and blockage of funds of ` 95.60 lakh for a period of 15 months with a consequential loss of interest[$] of ` 13.15 lakh.

The Management in reply (August 2010) justified the procurement of equipment on single tender basis on the ground that MSSIDC was a State Public Sector Undertakings and warranty period would start from the date of installation.

There was no urgency in procurement of equipment before completion of civil works which led to the equipment remaining idle with a consequent loss of interest on blocked up funds.

[$] At the rate of 11 *per cent* of prevailing cash credit rate.

2.1.24 Maharashtra has vast potential for coastal eco-tourism based on coastal resources with ecological sensitivity parameters. Recreational activities such as diving, snorkelling and whale watching are associated with coastal eco-tourism. We noticed that:

- The Company received ` 187.50 crore for 40 works from GoM during 2006-07 to 2009-10 under Coastal Eco-tourism development project. The Company had spent only ` 11.15 crore on seven works (sanctioned in 2006-07) and 33 works remained to be executed despite availability of fund.

Abnormal delay in taking up work by the Company resulted in non-utilisation of grant received for eco-tourism.

- Similarly, out of grant of ` 18.69 crore received (December 2008) from GoI under Eco-tourism of Vidarbha region to be spent within 36 months, the Company up to March 2010 had spent only ` 9 lakh. The unspent grant of ` 18.60 crore was not utilised till date (December 2010). The Company had neither prepared a plan for utilisation of grant nor surrendered the same.

2.1.25 With a view to promote tourism in Vidarbha region of the State, the Company in collaboration with South Eastern Railway (SER) decided to run Jungle Safari train in Nagpur-Nagbhid-Tadoba area. GoM sanctioned the project and released grant of ` 99.22 lakh for the project.

The Company did not conduct techno-economic feasibility study of the project which resulted in wasteful expenditure of ` 64.81 lakh.

We noticed that the Company without conducting the techno-economic feasibility study of the project and without entering into a formal agreement/MoU with the SER by determining the operating cost and haulage charges payable started the implementation of the project. The Company paid (March-December 2006) an advance of ` 64.81 lakh to SER for purchase of luxury coaches for the train to be operated which proved to be wasteful expenditure. In December 2008 the Company abandoned the project stating that it was not financially viable. The Company after a period of one year from abandoning the project requested (January 2009) SER to refund the advance payment made for the purchase of luxury coaches. The request of the Company was still pending with SER and no refund was received by the Company till date (December 2010).

The Management stated (August 2010) that the sudden exorbitant increase in haulage charges by SER made the project commercially unviable.

The reply was silent on the reason for not conducting techno-economic feasibility study before taking up the project and not entering into a formal agreement with SER. Thus, the grant remained blocked up in an abandoned project.

2.1.26 The GoI sanctioned (November 2004 and April 2006) grant of ` 9.81 crore and released (November-December 2004 and April 2006) ` 7.85 crore for repairs and maintenance and restoration of various heritage structures at Mahabaleshwar under Upgradation of Mahabaleshwar Phase I and II projects. The projects were to be completed within 24 months from the date of release of funds.

We noticed that the Company had spent ` 5.79 crore up to March 2010 and the projects were yet to be completed (December 2010). The delay in execution of work was mainly due to non-receipt of timely permission from the Forest Department and delay in transfer of funds to the Forest Department for the works (Development of Bombay point and Arthur seat point) which were to be done by them. Failure of the Company in ensuring statutory permissions prior to execution of work and lack of follow up with the Forest Department resulted in delay in execution of work.

We further noticed that there was no system of preparing annual budget and estimates for repairs so that the activity could be planned based on budget. GoI had also pointed out the lack of proper maintenance of the heritage structures and properties by the Company.

The Management stated (August 2010) that GoI had given extension of time for completion of Phase II project and the delay in project completion was beyond the control of the Company.

The reply was not convincing as the project got delayed due to not initiating of timely action for obtaining permission from Forest Department (FD) and transfer of funds.

2.1.27 The development project of Matheran envisaged development works at Resorts level and Town level. The resort level works included repair and restoration of heritage and other buildings, anti-termite, land scaping, *etc*. At town level, the development of 15 view points and tourist reception centres was proposed. The Company received (September 2005) grant of ` 3.61 crore from GoI for the project and the expenditure incurred by the Company up to May 2010 was only ` 1.56 crore.

We noticed that the work of repair of Heritage building at an estimated cost of ` 91.15 lakh was awarded (December 2005) to the contractor without obtaining the administrative approval. As such, the Company had to cancel the contract. After lapse of 15 months, the work was re-tendered (April 2007) and was awarded to another contractor in November 2007 without obtaining prior permission from the Municipal Council (MC) and FD. The progress of the work was slow as time lapsed in obtaining the required permissions.

As against the actual expenditure incurred to the extent of ` 1.56 crore, the Company submitted utilisation certificate of ` 2.87 crore to GoI which was irregular and required justification.

The Company issued utilisation certificate amounting to ` 7.62 crore as against the actual expenditure of ` 5.44 crore.

The Management stated (August 2010) that the utilisation certificate was given considering the grant given to the MC and the delay in execution was due to objection taken by GoI and the nature of hill station.

The reply of the Company was not justifiable as the submission of utilisation certificate without incurring the actual expenditure was irregular.

2.1.28 In order to develop the tourism in Konkan area of the State, the project of development of Konkan Riviera-III circuit was implemented. The project envisaged the economic development of Konkan by providing basic infrastructural facilities in Sindhudurg and Ratnagiri districts. The Company received (September 2005) a grant of ₹ 4.75 crore from GoI as first instalment for the project against which it incurred an expenditure of ₹ 3.88 crore up to March 2010.

We noticed that the Company had diverted funds of ₹ 68.97 lakh to other works not included in the sanctioned project without obtaining the prior permission from GoI. The Company wrongly issued work completion certificate and utilisation of grant certificate for the full amount of grant received of ₹ 4.75 crore to GoI though the expenditure incurred was ₹ 3.88 crore only.

The Management stated (August 2010) that revised completion certificate and utilisation certificate would be submitted to GoI after completion of work.

The above explanation did not justify the wrong submission of utilisation certificate when the project had not been completed so far (December 2010).

Financial Management

Arrears in finalisation of accounts

2.1.29 The accounts of the Company were finalised up to the year 2005-06 and accounts were in arrears for a period of four years from 2006-07 to 2009-10. In the absence of timely finalisation of the accounts and their subsequent audit, it could not be verified in Audit as to whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amounts were invested had been achieved. Further, delay in finalisation of accounts is not only fraught with the risk of fraud and leakage of public money but might lead to non-fixation of accountability and responsibility.

The Management stated (May 2010) that the lack of qualified and experienced staff was the main reason for delay in finalisation of accounts. As a remedial measure to liquidate the arrears of accounts, the Company outsourced (May 2010) the work of finalisation of accounts to a Chartered Accountant firm to be completed within three months. The accounts are, however, not yet finalised for any of the four years till date (December 2010).

Financial position and working results

2.1.30 The financial position and working results of the Company for 2005-06 (audited) and for the years 2006-07 to 2009-10, based on the provisional accounts prepared for the purpose of filing Income Tax return are given in **Annexure-10.**

The profit of the Company increased from ₹ 3.04 crore in 2005-06 to ₹ 6.14 crore in 2008-09 and decreased to ₹ 4.99 crore are in 2009-10. Since the above data from 2006-07 onward was not final, the profitability of the Company could not be vouchsafed in Audit in absence of its authenticity and reliability. The profit of ` 3.04 crore as per the audited accounts for the year 2005-06 had to be viewed with reference to the qualification made by the Statutory Auditor on non-provision of ` 3.54 crore towards time-barred/ overdue debts and old outstanding advance of ` 0.85 crore, which is doubtful of recovery. In addition the Company had not made any provision for ` 4.27 crore payable to GoM in respect of certain properties.

The financial data compiled from provisional accounts revealed the following inconsistencies:

- Assets register was not maintained.
- The cumulative depreciation up to March 2008 was ` 11.20 crore. However, the cumulative depreciation as on March 2009 was ` 6 lakh only. This again increased to ` 10.51 crore in 2009-10.
- There was an increase of ` 51.77 crore in current assets, loans and advances in 2008-09, but no details were available.

The Management stated (August 2010) that there was a mistake in preparation of accounts during 2007-08 and 2008-09 by internal auditors and revised accounts would be submitted.

The reply is not convincing as it indicates the unreliability of data in the provisional accounts and the inability of the Management to set any time-frame for finalisation of accounts.

Maintaining huge balances in current account

The Company kept substantial funds in 12 current accounts which indicated improper fund management.

2.1.31 The funds required for immediate use only should be kept in current accounts. As already noted, funds not required for immediate use are required to be invested in short-term deposits, so that interest can be earned for idle periods. However, scrutiny of balances in current accounts of 12 banks of the Company during 2005-06 to 2009-10, revealed that the minimum balance in the current accounts varied from ` 0.94 crore to ` 6.21 crore. Thus, huge balances remained in current accounts without earning any interest. The Company could have earned interest[ϒ] of ` 0.83 crore on the minimum balances during the period 2005-06 to 2009-10 had the amounts been invested in short-term deposits. Huge balances in current accounts also indicated the lack of prudent fund management.

The Management stated (August 2010) that it had to operate 19[*] resorts hence the balances remaining in current accounts were not huge amounts.

The reply was not acceptable as fund management of the Company was controlled by the Head office and hence operation of 12 current accounts was not justifiable and there was also lack of periodic monitoring by the Company.

[ϒ] At the interest rate of short-term deposit which ranged between 4.25 and six *per cent* for 91 to 179 days.

[*] The Company operated 18 resorts and one Boat House at Tarkarli which was treated as separate unit.

Manpower analysis

2.1.32 As per the instructions from the GoM, the Company reviewed the staffing pattern and finalised 487 sanctioned posts covering various cadres distributed over six regions after taking stock of the quantum of work in 2002-03.

As compared to 487 sanctioned posts covering various cadres distributed over six regions, the men-in-position were 369 in 2009-10. A review of deployment of staff in its 18[*] resorts as on 31 March 2010 revealed that:

- The Company did not assess its manpower requirement on the basis of industry norms of bed and employee ratio.
- There was an acute shortage of qualified persons such as Resort Managers and Front Office Assistants at these resorts. Although performance of the Tourism sector is dependent on the quality of professional services being offered, the shortages of qualified man power were a crucial deterrent.
- The Company had been deploying staff of other job descriptions for managing specialist functions of front office, food and beverage departments and house keeping.

Monitoring and Internal control

Lack of monitoring by top Management

2.1.33 Only 11 Board Meetings were held between 2005-06 and 2009-10 as against the mandated 20 meetings. No Board Meeting was held during 2005-06.

2.1.34 The Management Information System (MIS) in the Company was inadequate and ineffective. Periodical performance reports were not prepared and submitted to the top Management for remedial action to be taken to rectify the deficiencies. The Company had not maintained basic data of tourist arrivals in the State till July 2009. The Company's reply (August 2010) that the performance of resorts and water sports was monitored by top Management every month was not tenable as there was no regular meeting with unit heads and details of MIS in place in the Company were not furnished to audit in spite of repeated requests.

Internal control

2.1.35 Internal control was a process designed to provide reasonable assurance to an organisation regarding achievement of its performance goals.

[*] **Resorts**-Ajanta Shopping Plaza-T Point, Bhandardara, Bordi, Chikhaldara, Elephanta, Fardapur, Ganpatipule, Harihareshwar, Karla, Lonar, Mahabaleshwar, Malshej Ghat, Matheran, Shirdi, Tadoba, Tarkarli (including Tarkarli Boat House), Titwala, Velneshwar.

A built-in internal control system minimises the risk of errors, irregularities and ensures optimum utilisation of resources. The following deficiencies in the internal control system were noticed in audit:

- There was no system in vogue for conducting periodical physical verification of the Company's properties and assets such as resorts, restaurants, way-side amenities, health *spas*, water sports units, *etc*.

- The Company had not evolved a structured mechanism for analysing the reasons for unit-wise variance between actual and budgets with the result that the purpose of preparation of budgets was not achieved. Further capital expenditure was not budgeted.

- There was an absence of proper system of adjusting the advances paid against supplies/interim bills for work done.

- A system of cross-checking the data generated by different departments of the Company was not in vogue and accuracy of such data remained unascertained.

- The Company had not prepared an accounts manual or functional manuals for operating hotels and resorts.

- Project-wise accounts for the grants received from the GoI and GoM were not maintained due to which the Company failed to refund unspent balances of grants.

Internal Audit

2.1.36 No Internal Audit wing was in existence in the Company despite its existence for over 35 years. The Internal Audit of the Company was being carried out through Chartered Accountant firms. However, it was seen from the reports of the Internal Auditor, that the audit coverage was inadequate. Internal Auditor was appointed separately for Regional offices and Head office. But, there was no system of consolidation of accounts and Internal Audit reports of the Company as a whole and reconciliation of Regional office accounts with that of the Head Office accounts. No action was taken for preparing and submitting the Trial Balance of Regional offices. The Company neither took remedial action on the irregularities pointed out by the Internal Auditor nor was the matter reported to the BoD for action.

Acknowledgement

2.1.37 Audit acknowledges the co-operation and assistance extended by different levels of the Management at various stages of conducting of the performance audit.

Conclusion

- **Despite a conductive atmosphere in the State for tourist development, the Company's performance was sub-optimal.**

- **The Company had not prepared a concrete Corporate or Action Plan to meet the requirements of Tourism Policy, 2006 in order to have planned efforts for tourism development in the State.**

- **The percentage of foreign tourists availing the Company's facilities continued to be negligible despite an increase in tourist inflow to the State and the percentage of domestic tourists availing facilities registered a declining trend from 2007-08 onwards despite huge expenditure on infrastructural tourist projects by the Company.**

- **The Company had not fixed the occupancy norms including benchmark occupancy standards for its resorts and compared to All India Average occupancy statistics, the occupancy achievement was very low.**

- **The grants received for creating/developing tourism infrastructure were parked in Fixed Deposits as utilisation of grants was very low and as such projected facilities could not be created.**

- **The Management should give correct utilisation certificate for revenue and capital grant and refund the unspent grant to the Government.**

- **High tariff rates and poor maintenance of resorts were the main reasons for poor patronage of its facilities.**

- **Absence of clear-cut policy for leasing out land resorts and failure of the Company to monitor recovery of lease rentals resulted in accumulation of dues receivable.**

- **The Corporate governance was deficient as internal control mechanism and monitoring by the top Management was not proper and internal audit was inadequate.**

Recommendations

- **The Company should prepare a strategic Corporate Plan defining its long-term and short-term role and activities as per the TP of the State, identifying the nodal areas for implementation and fixing clear milestones for developing tourism potential in the State.**

- **The Company should utilise statistical data on tourist inflow to evolve critical thrust areas for effective micro-level planning. Delineation of circuits for medical/business tourism, religious/cultural tourism, eco-agricultural tourism, *etc* should be aligned with such statistical data.**

- **The Company ought to ensure effective project implementation system with improved planning and execution and efficient financial monitoring of the projects.**

- **The Company should monitor utilisation of grants received from GoI and GoM for the stated purpose within the stipulated time period and submission of correct utilisation certificate and surrendering of unutilised balances.**

- **There is a need to improve its financial Management by ensuring timely finalisation of accounts, financial reporting with greater accountability and fix norms for occupancy and proper costing of catering services. Ranking of resorts/restaurants as a management control tool can be attempted.**

- **A systematic leasing policy needs to be formulated with an assessment of the profitability and operating efficiency of present properties. Timely recovery of agreed lease rentals from lessees should be ensured.**

- **Customer feedback mechanism should be closely monitored by the top Management. On-line grievance redressal facilities should be immediately activated on the Company's website.**

- **Impact analysis of operations needs to be carried out to assess the reasons for low occupancy and to increase overall domestic/foreign tourist usage of its resorts.**

The matter was reported to the Government (June 2010); their reply had not been received (December 2010).

2.2 Performance Audit on power generation activities in Maharashtra State Power Generation Company Limited

Executive Summary

Introduction

One of the core objectives of National Electricity Policy has been "Supply of Power for All" by 2012. Maharashtra being a power deficient State, could not meet the peak demand and deficit in the power remained between 25 and 34 per cent of the peak demand during 2005-10. In view of the above it was considered desirable to conduct performance audit of power generation activities in the State in general and the Maharashtra State Power Generation Company Limited (Company) in particular. The performance audit covered capacity addition programmes, optimal utilisation of its resource for generation of power, management of fuel and output efficiency besides environmental aspects. The significant audit findings are discussed below:

Financial position and working results

The borrowings increased from ` 2,413.74 crore in 2005-06 to ` 12,987.99 crore in 2009-10 mainly on account of taking up new power projects. The debt equity ratio, therefore, increased from 0.90:1 in 2005-06 to 2.67:1 in 2009-10. The turnover of the Company during 2009-10 was ` 11,083.25 crore.

Planning and capacity additions

Capacity additions planned by the Company were not commensurate with the deficit of power. As against the required capacity additions of 5,210 MW, the actual additions by the Company was only 625 MW during 2005-10. The State Government signed (April 2005) Memorandum of Understanding with eight IPPs (12,168 MW) and provided financial/administrative support to another 24 IPPs (31,590 MW) for setting up power projects. However, 20 IPPs (28,718 MW) had not started their activities due to non acquisition of land. Out of potential of 7,852 MW for renewable energy in the State, sources were tapped up to 2,775 MW only by 2009-10. Thus, the objective of the National Electricity Policy to provide Power for All by 2012 may not be achieved.

Project implementation

The completion of two power projects (Parli Unit-6-250 MW and Paras Unit-3-250 MW) had spilled over from X Five Year Plan to XI Five Year Plan and completed in 2007-08 after a delay of 13-14 months. These projects were commissioned without conducting trial run. Resultantly, Parli Unit-6 remained under forced outage during November 2007 to March 2010 and led to loss of generation of 832 MUs. Out of remaining nine ongoing projects, six projects (2,750 MW) were behind the schedule by five to ten months.

Renovation and Modernisation of existing stations

The Company on the ground of shortfall of power in the State had not taken up any Renovation and Modernisation (R&M) programme of the existing nine thermal units due in the X Five Year Plan and compromised with technical requirements. Moreover, there was no long-term Corporate Plan (CP) for R&M of old units in a phased manner.

Input and output efficiency

The excess consumption of 333.33 lakh MT of coal (value ` 5,515.85 crore) was mainly on account of low calorific value of coal received during 2005-10. The Company had not entered into coal supply agreements with two coal companies up to March 2009 and claims amounting to ` 76.10 crore on account of stones and shales and slippage in grade relating to the period 2001-09 were still pending with the two coal companies. The Company had

not fixed modalities for ensuring timely submission of coal related claims as per new agreements from April 2009 onwards. There was also loss of generation of 335.88 MUs due to short supply of gas during 2005-10.

The actual Plant Load Factor (PLF) and generation of electricity by majority of thermal units was below the target fixed by MERC during the period of review. The PLF of 27 thermal units was below the target during 2009-10. Auxiliary consumption remained higher than the target resulting in loss of 1,076 MUs valued at ` 246.05 crore during review period.

Environmental issues

The environmental norms were not strictly complied with. The environment impact assessment was also not conducted by the Company for its projects.

Conclusion and Recommendations

The Company had not taken up R&M programme for any of the old units nor had it prepared Corporate Plan for replacement of overaged units in a phased manner. The operational efficiency of power stations was lower as compared to norms relating to consumption of fuel, PLF, forced outages and auxiliary consumption. The review contains eight recommendations which include preparation of comprehensive plan for replacement of overaged units, updatation of Management Information System on coal claims and fixing of power station-wise bench mark for transit loss.

Introduction

2.2.1 Power is an essential requirement for all facets of life and has been recognised as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act, 2003 provides a framework conducive to development of the Power Sector, promote transparency and competition and protect the interest of the consumers. In compliance with Section 3 of the *ibid* Act, the Government of India (GoI) prepared the National Electricity Policy (NEP) in February 2005 in consultation with the State Governments and Central Electricity Authority (CEA) for development of the Power Sector based on optimal utilisation of resources like coal, gas, nuclear material, hydro and renewable sources of energy. The Policy aims at, *inter alia*, laying guidelines for accelerated development of the Power Sector. It also requires CEA to frame National Electricity Plan once in five years. The Plan would be a short-term framework of five years and gives a 15 years' perspective.

2.2.2 The requirement of electricity of Maharashtra during 2005-06 was assessed as 1,77,425 Million Units (MUs) of which only 1,40,589 MUs were made available leaving a shortfall of 36,836 MUs which works out to 20.76 *per cent* of the requirement. The total installed power generation capacity of the State at the beginning of 2005-06 was 16,754 Mega Watt (MW) (including Central allocation) and effective available capacity was 11,844 MW against the peak demand of 16,049 MW leaving deficit of 4,205 MW during 2005-06. The requirement of electricity during 2008-09 was 1,80,430 MUs of which 1,37,146 MUs were made available leaving shortfall of 43,284 MUs which worked out to 23.99 *per cent* of the total requirement. The installed capacity as of March 2009 was 22,435 MW (including Central allocation) and effective available capacity was 10,715 MW (the Company 6,655 MW and other

4,060 MW) against peak demand of 15,656 MW leaving deficit of 4,941 MW during 2008-09[*]. There was capacity addition of 5,681 MW during 2005-09.

2.2.3 The erstwhile Maharashtra State Electricity Board (MSEB) was restructured and four new State Government Companies in the power sector (separate Company for Generation, Transmission, Distribution and Holding Company) were incorporated in May 2005 under the administrative control of Energy Department of the Government of Maharashtra (GoM). The electricity generated by the generating Company is supplied to Maharashtra State Electricity Distribution Company Limited (MSEDCL) for distribution to consumers in the State excluding Mumbai city and certain suburban areas of Mumbai which are served by Brihan Mumbai Electricity Supply and Transport Undertaking (BEST), Reliance Infrastructure Limited (Reliance) and Tata Power Company Limited (TATA).

2.2.4 In Maharashtra, major generation of power is by the Maharashtra State Power Generation Company Limited (Company) which was incorporated on 31st May 2005 under the Companies Act, 1956 as a wholly owned State Government Company. The affairs of the Company are managed by the Board of Directors (BoD) consisting of the Chairman, Managing Director and four Directors including two non official Directors. The day to day affairs of the Company are looked after by the Managing Director who is assisted by three Directors and seven Executive Directors. Each power station is headed by a Chief General Manager.

The share of the Company in the total installed capacity (excluding central allocation) of the State was 61 *per cent.* As of March 2010, the Company had seven Thermal Power Stations (TPS), one Gas Power Station (GPS) alongwith Waste Heat Recovery Plant (WHRP) and 24 Hydro Power Stations (HPS) taken on lease from GoM, with installed capacity of 6,925, 852 and 2,469 MW respectively. The turnover of the Company was ` 11,083.25 crore in 2009-10, which was equal to 27.12 and 1.33 *per cent* of the turnover of the State Public Sector Undertakings and State Gross Domestic Product respectively. The Company employed 15,642 employees as on 31 March 2010.

Scope and methodology of Audit

2.2.5 The present review conducted during February to June 2010 covers the performance of the Company during the period from 2005-06 to 2009-10. The review mainly deals with Planning, Project Management, Financial Management, Operational Performance, Environmental Issues and Monitoring by top Management. The audit examination involved scrutiny of records at the Head Office (HO), three TPSs at Chandrapur, Koradi and Parli with installed capacity of 4,380 MW, one HPS at Koyna with capacity of 1,956 MW and Gas Turbine Power Station (GTPS) alongwith WHRP at Uran with a total installed capacity of 852 MW. In addition, the records in the office of the Superintending Engineer (Coal) at Nagpur which handles coal matters were also test checked. The selection of generating power stations was made on the

[*] Figures for 2009-10 were not available with the State Government.

basis of installed capacity and covered 63 *per cent* of thermal installed capacity, 79 *per cent* of hydel installed capacity and cent *per cent* capacity of GTPS.

2.2.6 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the audit objectives to the top Management, scrutiny of records at HO and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries and discussion of audit findings with the Management.

Audit objectives

2.2.7 The objectives of the performance audit were to assess:

Planning and Project Management

- Whether capacity addition programme taken up/to be taken up to meet the shortage of power in the State was in line with the National Policy on Power for All by 2012;
- Whether a plan of action was in place for optimisation of generation from the existing capacity;
- Whether the contracts were awarded with due regard to economy and in transparent manner; and
- Whether the execution of projects were managed economically, effectively and efficiently.

Financial Management

- The soundness of financial health of the generating undertaking; and
- Whether all claims including energy bills and subsidy claims were properly raised and recovered in an efficient manner.

Operational performance

- Whether the power plants were operated efficiently and preventive maintenance as prescribed was carried out minimising the forced outages;
- Whether requirements of each category of fuel was worked out realistically, procured economically and utilised efficiently;
- Whether the manpower requirement was realistic and its utilisation optimal;
- Whether the life extension (renovation and modernisation) programme were ascertained and carried out in an economic, effective and efficient manner; and

- The impact of Renovation and Modernisation (R&M)/Life Extension activity on the operational performance of the Unit.

Environmental issues

- Whether the various types of pollutants (air, water, noise, hazardous waste) in power stations were within the prescribed norms and complied with the required statutory requirements.

Monitoring and evaluation

- Whether adequate Management Information System existed in the entity to monitor and assess the impact and utilise the feedback for preparation of future schemes.

Audit criteria

2.2.8 The audit criteria adopted for assessing the achievement of the audit objectives were:

- NEP, norms/guidelines of CEA regarding planning and implementation of the projects;
- standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- targets fixed for generation of power;
- parameters fixed for plant availability, Plant Load Factor (PLF) *etc*;
- performance of best managed units in the regions/All India Averages;
- prescribed norms for planned outages; and
- Acts relating to Environmental laws.

Financial position and working results

2.2.9 The financial position of the Company for the five years ending 2009-10 is given below:

(` in crore)

Particulars	2005-06 (31 May 2005 to 31 March 2006)	2006-07	2007-08	2008-09	2009-10
A. Liabilities					
Paid up capital	2,563.41	2,963.41	3,113.41	3,527.41	4,194.68
Reserve and surplus (including capital grants but excluding depreciation reserve)	112.94	358.96	375.24	459.34	662.74
Borrowings (Loan funds)					
a) Secured	2,097.74	3,134.09	5,028.15	8,538.81	9,310.46
b) Unsecured	316.00	284.40	253.05	221.43	3,677.53
Total (a + b)	**2,413.74**	**3,418.49**	**5,281.20**	**8,760.24**	**12,987.99**
Deferred tax liability/deferred cost	(33.94)	(30.94)	407.38	383.91	500.81
Current liabilities and provisions	2,474.55	2,534.85	6,536.89	8,632.37	8,935.72
Total	**7,530.70**	**9,244.77**	**15,714.12**	**21,763.27**	**27,281.94**
Gross block	9,649.43#	9,999.75#	11,478.38	13,270.11	13,425.04
Less: Depreciation	6,318.11	6,672.12	6,882.36	7,171.50	7,462.12
Net fixed assets	3,331.32	3,327.63	4,596.02	6,098.61	5,962.92
Capital works-in-progress	1,728.87	2,953.81	3,690.86	6,113.59	10,353.21
Investments	-	0.09	0.18	0.16	0.11
Current assets, loans and advances	2,470.51	2,963.24	7,427.06	9,550.91	10,965.70
Total	**7,530.70**	**9,244.77**	**15,714.12**	**21,763.27**	**27,281.94**

We observed that the borrowings of ` 2,413.74 crore in 2005-06 increased to ` 12,987.99 crore in 2009-10. The increase in borrowings during the review period was 438 *per cent*. The steep rise in the borrowings was due to implementation of new power projects financed through 80 *per cent* loans. The debt equity *ratio*, therefore, had increased from 0.90:1 (2005-06) to 2.67:1 (2009-10).

[#] Intangible assets of ` 5.12 crore and ` 3.90 crore pertaining to the periods 2005-06 and 2006-07 respectively were included in Gross block and Net fixed assets.

2.2.10 The details of working results like cost of generation of electricity, revenue realisation, *vis-a-vis* realisation, cost and profit per unit of generation are given below:

(` in crore)

Sl. No.	Description	2005-06#	2006-07	2007-08	2008-09	2009-10
1.	**Income**					
	Generation Revenue	5,361.70	7,344.95	8,081.97	9,346.49	11,083.25
	Other income including interest/subsidy	106.94	95.68	166.77	132.64	103.29
	Total : Income	**5,468.64**	**7,440.63**	**8,248.74**	**9,479.13**	**11,186.54**
2.	**Generation**					
	Total generation (In MUs)	40,381.88	50,357.12	52,294.46	50,398.00	50,875.22
	Less: Auxiliary consumption (In MUs)	2,957.70	3,752.69	4,005.29	4,137.95	4,449.07
	Total generation available for Transmission and Distribution (In MUs)	**37,424.18**	**46,604.43**	**48,289.17**	**46,260.05**	**46,426.15**
3.	**Expenditure**					
(a)	**Fixed cost**					
(i)	Employees cost	353.18	434.28	487.80	668.02	616.41
(ii)	Administrative and General expenses	29.88	54.58	167.42	191.27	361.17
(iii)	Depreciation	327.69	347.63	208.90	309.30	302.10
(iv)	Interest and finance charges	135.68	279.15	445.90	695.51	1,095.15
	(Less) Capitalisation	32.43	76.33	311.74	296.14	703.00
	Total fixed cost	**814.00**	**1,039.31**	**998.28**	**1,567.96**	**1,671.83**
(b)	**Variable cost**					
(i)	Fuel consumption					
	(a) Coal	3,626.16	4,843.72	5,536.45	6,070.88	7,237.09
	(b) Oil	158.07	188.99	193.85	546.16	439.75
	(c) Gas	241.43	306.05	273.25	535.35	648.35
	(d) Other fuel related cost including shortages/ surplus	158.43	208.24	(5.44)	3.86	(12.17)
(ii)	Cost of water (hydel/ thermal/ gas/ others)	39.47	82.57	82.45	119.40	177.87
(iii)	Lubricants and consumables	17.29	23.62	85.61	92.74	78.69
(iv)	Repairs and maintenance	254.93	459.25	487.15	482.66	532.95
	(Less) Capitalisation	55.13	96.95	2.20	1.82	1.42
	Total variable cost	**4,440.65**	**6,015.49**	**6,651.12**	**7,849.23**	**9,101.11**
(c)	**Other Debits and Extra-ordinary Items (Add)**	**43.75**	**1.24**	**-**	**-**	**-**
C.	**Total cost 3(a) + (b) + (c)**	**5,298.40**	**7,056.04**	**7,649.40**	**9,417.19**	**10,772.94**
4.	Realisation (` per unit)	1.46	1.60	1.71	2.05	2.41
5.	Fixed cost (` per unit)	0.22	0.22	0.21	0.34	0.36
6.	Variable cost (` per unit)	1.19	1.29	1.38	1.70	1.96
7.	Total cost per unit (5+6) (` per unit)	1.41	1.51	1.59	2.04	2.32
8.	Contribution (4-6) (` per unit)	0.27	0.31	0.33	0.35	0.45
9.	**Profit per unit (4-7) (` per unit)**	**0.05**	**0.09**	**0.12**	**0.01**	**0.09**

Figures related to the period from 31 May 2005 to 31 March 2006.

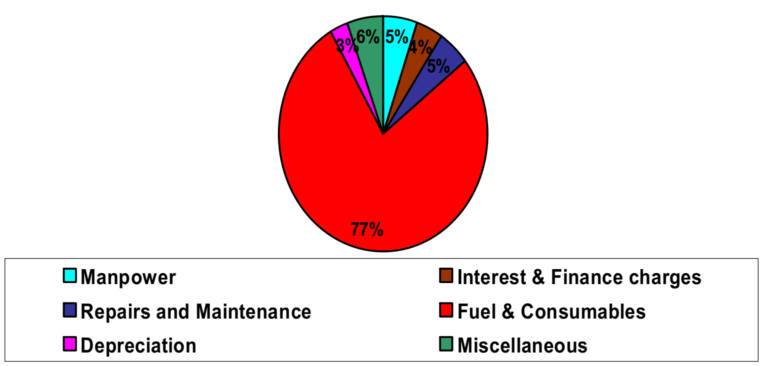
Profit per unit of generation steeply decreased to ` 0.01 in 2008-09 due to disallowance of ` 586.41 crore by MERC.

We observed that profit per unit of generation steeply decreased from ` 0.12 in 2007-08 to ` 0.01 in 2008-09 due to disallowance of ` 586.41 crore by Maharashtra Electricity Regulatory Commission (MERC) on account of non-achievement of performance parameters, excess expenditure over and above normative expenditure.

Elements of cost

2.2.11 Fuel and consumables constitute the major elements of cost. The percentage break-up of cost for 2009-10 is given below in the pie-chart:

Components of various elements of cost

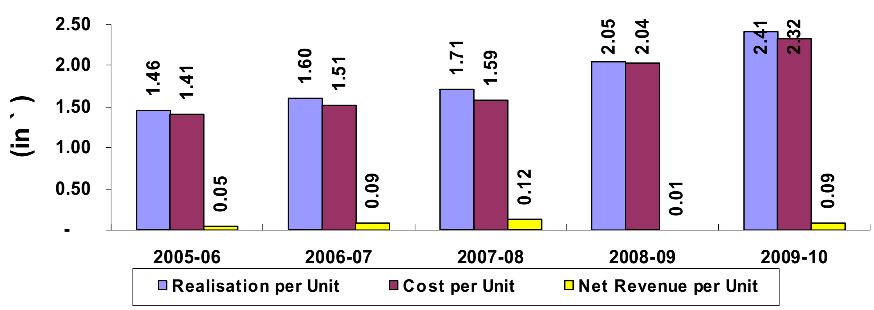


Elements of revenue

2.2.12 Sale of Power constitutes the major element of revenue. The Company had not received any subsidy from the GoM during review period.

Recovery of cost of operations

2.2.13 The Company was able to recover its cost of operations during the five years 2005-06 to 2009-10 as given in the graph below:



The net realisation per unit decreased from 12 paisa per unit in 2007-08 to one paisa per unit in 2008-09 for the reasons stated in **paragraph 2.2.10**.

Audit findings

2.2.14 Audit explained the audit objectives to the Company during an 'Entry Conference' held on 1 February 2010. Subsequently, audit findings were reported to the Company and the State Government in June 2010 and discussed in an 'Exit Conference' held on 14 September 2010. The Exit Conference was attended by the Secretary (Energy), Government of Maharashtra (GoM) and Managing Director of the Company alongwith Director (Operations) and Director (Finance). The Management of the Company replied to the Audit findings in September/October 2010 which were endorsed by the State Government. The views expressed by the Management and Government in their replies have been duly considered while finalising the review. The audit findings are discussed below:

Operational performance

2.2.15 The operational performance of the Company for the five years ending 2009-10 is given in the **Annexure-11**. The operational performance of the Company was evaluated on various operational parameters as described below. It was also seen whether the Company was able to maintain pace in terms of capacity addition with the growing demand for power in the State (excluding Mumbai and certain Mumbai suburban areas served by BEST, Reliance and TATA). Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings indicated that there was scope for improvement in performance.

Planning

2.2.16 National Electricity Policy (NEP) aims to provide availability of over 1,000 Units of per Capita electricity by 2012, for which it was estimated that need based capacity addition of more than 1,00,000 MW would be required during 2002-2012 in the country. The Union Government has laid emphasis on the full development of hydro potential being a cheaper source of energy as compared to thermal. The Government would support the State Governments for expeditious development of hydro power projects by offering the services of Central Public Sector Undertakings like National Hydro Electric Power Corporation Limited, National Thermal Power Corporation Limited (NTPCL) and NEEPCO. Besides, environmental concerns would have to be suitably addressed through appropriate advance actions.

2.2.17 During the period 2005-2010, the actual generation was substantially less than the peak as well as the average demand as given below:

Year	Peak demand of MSEDCL (MW)	Average demand of MSEDCL (MW)	Demand met by MSEDCL		Percentage of demand met to peak demand	Percentage of demand met to average demand
			Peak demand (MW)	Average demand (MW)		
2005-06	14,061	11,676	9,856	8,392	70.09	71.87
2006-07	14,825	12,092	10,298	8,899	69.46	73.59
2007-08	15,689	12,912	10,412	9,342	66.36	72.35
2008-09	15,656	13,352	10,715	9,436	68.44	70.67
2009-10	16,582	13,441	12,414	10,060	74.86	75.01

(Source: Information furnished by Maharashtra State Electricity Distribution Company Limited)

As may be seen from the above, the average demand met by MSEDCL was between 70.67 and 75.01 *per cent* of the total average demand and between 66.36 and 74.86 *per cent* of the total peak demand of MSEDCL network during the period 2005-10.

2.2.18 The total electricity generated by the Company is supplied to MSEDCL for further distribution to its consumers. The energy supplied to consumers by MSEDCL even after resorting to other sources such as Central allocation and purchases from the market was not sufficient to meet the peak demand as shown below:

(In MW)

Year	Peak demand	Peak demand met	Sources of meeting peak demand		Peak deficit	Percentage of deficit to peak demand
			Company	Others		
2005-06	14,061	9,856	7,238	2,618	4,205	29.91
2006-07	14,825	10,298	7,000	3,298	4,527	30.54
2007-08	15,689	10,412	7,297	3,115	5,277	33.64
2008-09	15,656	10,715	6,655	4,060	4,941	31.56
2009-10	16,582	12,414	7,713	4,701	4,168	25.14

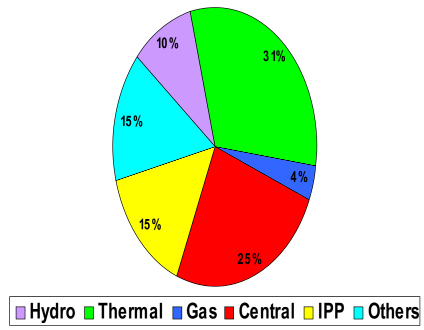
(Source: Information furnished by the Company)

The power deficit ranged between 4,168 and 5,277 MW during 2005-10.

It was seen from above that deficit increased from 4,205 MW in 2005-06 to 5,277 MW in 2007-08 and again decreased to 4,168 MW during 2009-10. Consequently, rotational load shedding was forced on the populace.

Capacity additions

2.2.19 The State had total installed capacity of 16,754 MW at the beginning of 2005-06 which was increased to 22,435 MW at the end of 2008-09. The particulars of generating capacity in the State as on 1 April 2005, additions/ (deletions) during review period and total capacity at the end of March 2009 are given in the **Annexure-12**. The break-up of generating capacity as on 31 March 2009 under thermal, hydro, gas sources of the Company, Central allocation, Independent Power Projects (IPP) and other sources are shown in the pie chart below:



2.2.20 The energy requirement of 1,23,174 MUs of the State (excluding Mumbai and certain Mumbai suburban areas) during 2005-06 increased to 1,45,258 MUs during 2009-10. In order to meet the peak demand, a capacity addition of 5,210* MW was required during 2005-10. As against this, the actual capacity addition by the Company was only 625 MW.

The consolidated position of projects under construction and committed projects of the State was not available with the State Government. However, the projects undertaken by the Company for capacity addition have been discussed in the following paragraphs.

2.2.21 The particulars of installed capacity, capacity additions envisaged, actual additions of the Company and peak demand *vis-a-vis* electricity made available by the Company and electricity supplied by MSEDCL to consumers during the review period are given below:

(In MW)

Sl. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Capacity at the beginning of the year	9,717	9,626	9,621	10,121	10,121
2.	Additions Planned as per National Electricity Plan	Nil	500	Nil	Nil	500
3.	a) Actual additions b) Capacity deletions (Due to over ageing)	Nil 91	Nil 5	500 Nil	Nil Nil	125♣ Nil
4.	Capacity at the end of the year	9,626	9,621	10,121	10,121	10,246
5.	Shortfall in capacity addition (2 – 3a)	Nil	500	(500)	Nil	500
6.	Peak demand	14,061	14,825	15,689	15,656	16,582
7.	Total Energy made available by MSEDCL through:	9,856	10,298	10,412	10,715	12,414
	a) The Company	7,238	7,000	7,297	6,655	7,713
	b) Other sources	2,618	3,298	3,115	4,060	4,701
8.	**Deficit (6 – 7)**	**4,205**	**4,527**	**5,277**	**4,941**	**4,168**

(Source: Information furnished by the Company)

*To meet deficit of 4,168 MW during 2009-10 considering PLF of 80 *per cent* (4,168 MW x 100/80) = 5,210 MW.

♣It is a Hydro Power Project at Ghatghar planned and constructed by the State Government and transferred to the Company for operation.

We observed that during the review period actual capacity addition was only 500 MW against 1,000 MW planned by the Company. Two thermal projects (Parli Unit-seven and Paras Unit-four) of 500 MW capacity planned for commissioning during 2006-07 and 2009-10 were actually commissioned during 2007-08 and 2010-11 respectively.

2.2.22 After enactment of the Electricity Act, 2003, the State Government formulated (March 2005) a policy to promote investment in the power sector. The Power generating stations were to be set up by Independent Power Producers and the State Government was required to extend administrative support for land acquisition, clearance for projects and fiscal support in the form of exemption in stamp duty, octroi and sales tax. It was binding on IPPs to sell electricity to the extent of 50 *per cent* of generation within State. The Draft Project Report's (DPR) were to be submitted within six months, financial closure within one year and completion of project within five years were the conditions for claiming exemptions.

There was no linkage between the State policy and actual execution as the majority of private projects were not started.

Accordingly, the GoM had signed (April 2005) Memorandum of Understanding with eight IPPs for setting up power projects (12,168 MW), of which seven IPPs (10,468 MW) had not started their work so far (September 2010) due to non-acquisition of land. In addition, another 24 power projects (31,590 MW) were to be implemented by IPPs with Government support. Of these, 13 projects (18,250 MW) were not started due to non-acquisition of land. As Maharashtra is a power deficit State, realistic planning for project implementation factoring in obtaining of all requisite statutory clearances and adequate land acquisition was a pre-requisite to successful project implementation. We observed that despite clear bench-marks for capacity addition by IPPs, failure to clear pre-project bottlenecks like land acquisition meant that the Electricity Policy was unrealistic and was not co-ordinated with actual on-site preparedness. The time and cost overrun in respect of the Company's own projects have been delineated separately in **paragraphs 2.2.27, 2.2.28** and **2.2.29** *infra*. Thus, the policy formulated lacked clear-cut modalities for the achievement of the objectives of the National Policy.

Capacity additions planned by the Company were not adequate to meet the deficit and the State Government may not be able to provide power for all by 2012.

The Company had planned 13 new power projects for completion in the X Five Year Plan (FYP) (2002-07), XI FYP (2007-12) and XII FYP (2012-17) periods with an envisaged net capacity addition of 5,270 MW. Of these, commissioning of two projects (500 MW) had spilled over from X to XI FYP and were commissioned in 2007-08. Other two projects of 250 MW each (Parli Unit-seven and Paras Unit-four), due for commissioning during 2009-10, were actually commissioned during 2010-11 after a delay of 15 and 14 months respectively due to delay in supply of material. Remaining four projects with capacity of 1,750 MW and five projects of 2,980 MW were scheduled to be completed during the XI Plan and XII Plan respectively. As the commissioning of power projects in the private sector were largely uncertain and capacity additions planned by the Company were not adequate, power deficit and attendant severity and frequency of load shedding would continue to plague the State during the XI FYP period. As per 17th Electric Power Survey of India conducted by CEA, the requirement of power by the end of XI FYP *i.e.* by 2012 would be 19,105 MW for MSEDCL area. Based on this projection and capacity additions, MSEDCL still projected shortfall of 2,855 MW by the end of XI FYP *i.e.* by 2012. Thus, the objective of the NEP to provide Power for All by 2012 may not be achieved.

The Management stated that due to impasse on Dabhol Power Project, offer received for capacity addition from NTPCL, NPCIL and private operators were not considered by the State Government. However, the fact remains that deficit still persists in the State and the State Government had not chalked out a re-orientation of efforts or a strategic mechanism to fast-track incomplete projects and ensure power for all by 2012.

Renewable sources of energy

2.2.23 The State Government had formed (1986) Maharashtra Energy Development Agency (MEDA) to undertake development of renewable energy and facilitate energy conservation in the State. GoM fixed a target of 10 *per cent* of conventional energy generated in the State for renewable energy (*i.e.* wind, small hydro projects, Biomass, Biogases co-generation, municipal solid waste and industrial waste *etc).* As per the policy of GoM, subsidy was payable against certain infrastructural expenditure required for the project, exemption from electricity duty and providing share capital (11 *per cent*) to projects in co-operative sector, exemption from payment of octroi on plant and machinery *etc*. The NEP also emphasised the need for development of maximum energy from renewable (non-conventional) sources.

2.2.24 The details of total potential of renewable energy resources in the State, potential tapped up to March 2005 and thereafter during 2005-10 *vis-a-vis* balance potential as of March 2010 were as under:

(In MW)

Sl. No.	Source	Total potential in the State	Achievement up to 31 March 2005	Achievement during 2005-10	Cumulative achievement up to March 2010	Balance potential
1	Wind	4,584	456	1,615	2,071	2,513
2	Biogases co-generation	1,250	91	276	367	883
3	Biomass	781	Nil	107	107	674
4	Small hydro projects	600	211	8	219	381
5	Industrial waste	350	6	5	11	339
6	Urban solid waste	287	Nil	Nil	Nil	287
	Total	**7,852**	**764**	**2,011**	**2,775**	**5,077**

(Source: Information furnished by the State Government)

It could be seen from the above table that the State Government could develop installed capacity of 2,775 MW for power generation from renewable sources out of the total potential of 7,852 MW. Thus, the remaining potential of 5,077 MW (64.66 *per cent*) was yet to be tapped (March 2010). Further, the target, as per FYP (2007-12), for developing renewable energy was 1,040 MW and 1,123 MW for 2008-09 and 2009-10 respectively. Against these targets, the actual achievement was only 259 MW and 269 MW respectively. Improper planning and lack of a mechanism to monitor the progress were the main reasons for non-achievement of targets.

The State Government stated that economically viable sites for small hydro projects have already been developed and investors were reluctant to invest funds in industrial waste projects in the absence of tariff order by MERC. However, potential under Wind, Biogases and Biomass are yet to be tapped.

Optimum utilisation of existing facilities

2.2.25 In order to cope with the rising demand for power, not only does additional capacity need to be created but a plan needs to be in place for optimal utilisation of existing facilities and also for undertaking life extension programme/replacement of the existing facilities which are nearing completion of their age besides timely repairs/maintenance. The details of the power generating units, which fell due for Renovation and Modernisation (R&M)/ Life Extension (LE) programmes (as per CEA norms) during the five years ending 2009-2010 *vis-a-vis* actually taken up are indicated in the table below:

Sl. No.	Name of the TPS	Unit number	Installed Capacity (MW)	Period when R&M due	Remarks
1	Koradi	1 to 4	4 x 120	X Five Year Plan (2002-07)[•]	Not taken up as closure of units was not permitted by the State Government due to shortage of power.
2	Bhusawal	1	1 x 62.5		
3	Nashik	1 and 2	2 x 140		
4	Parli	1 and 2	2 x 30		
5	Koradi	6	210	XI Five Year Plan (2007-12)[•]	R&M work has not started (September 2010).
6	Chandrapur	1 and 2	2 x 210		
7	Bhusawal	2	1 x 210		
8	Parli	3	1 x 210		
9	Nashik	3	1 x 210		

The Company had not prepared a Corporate Plan for R&M and replacement of old units in a phased manner.

The Central Electricity Authority (CEA) prescribed the norm for useful life of a thermal plant as 25 years. The Company had 34 thermal units (de-rated capacity-6,800 MW) as of March 2010. Out of these, 21 Units (3,120 MW) were more than 25 years old (26-42 years). In a vital infrastructure like the power sector of a fast developing country, a long-term Corporate Plan was essential. We observed that no such Corporate Plan incorporating therein the R&M/LE programmes *vis-a-vis* replacement of old units in a professional and phased manner was prepared by the Company. Therefore, delay in taking up R&M of old thermal units was indicative of poor planning.

The Management stated that R&M activities would be given priority. We feel that postponement of R&M of units on the pretext of shortage of power is a compromise with technical requirements and the units would run the risk of not being available for generation over a longer period on account of forced outages.

[•]No due dates were fixed for each unit.

Project Management

2.2.26 Preparation of an accurate and realistic DPR after considering feasibility study, factors like creation of infrastructure facility, addressing bottlenecks likely to be encountered in various stages of project planning are critical activities in the planning stage of a project.

Project Management includes timely acquisition of land, effective actions to resolve bottlenecks, obtain necessary clearances from Ministry of Forest and Environment and other authorities, rehabilitation of displaced families, proper scheduling of various activities. Notwithstanding, time and cost overruns were noticed due to absence of coordinating mechanism throughout the implementation of the projects during review period are discussed in succeeding paragraphs.

Time and cost overrun

2.2.27 The following table indicates the estimated cost and scheduled period of completion, actual cost and dates of trial/commercial operation, cost/time overrun of thermal power projects completed during 2005-10.

Particulars	Parli Unit-6 (250 MW)		Paras Unit-3 (250 MW)	
Date of preparation of DPR	October 1997		September 2003	
Estimated cost	` 1,155 crore		` 1,122 crore	
Date of Letter of Acceptance (LOA)	14 January 2004		25 May 2004	
	As per LOA	**Actual**	**As per LOA**	**Actual**
Date of synchronisation	13 July 2006	16 February 2007	25 November 2006	31 May 2007
Date of trial run	13 September 2006	04 January 2009	25 January 2007	29 December 2008
Date of commercial operation (completion)	13 September 2006	01 November 2007	25 January 2007	31 March 2008
Actual cost of project	` 1,462 crore		` 1,508 crore	
Time overrun	13 months		14 months	
Cost overrun	` 307 crore		` 386 crore	

In this connection, we observed the following:

Trial run was conducted after commissioning of power plant thereby defeating the purpose of trial run.

2.2.28 The DPR plays a vital role in project implementation. The deficiencies in DPR will create post implementation technical problems. The utilisation of old data will lead to cost overrun and problems due to technical obsolescence. The DPR for Parli Unit-six project prepared in October 1997 was not revised while awarding the work in January 2004. Thus, the estimated cost considered for award of work was unrealistic and there was cost overrun of ` 307 crore. Though, the projects were completed in 2007-08, the financial closure of the projects were still pending (September 2010). The time overrun was mainly due to delay in supply of material, problems in erection and non-stabilisation of units and cost overrun was on account of increase in the interest burden during construction period, increase in cost of additional mandatory spares and overheads. Further, the trial run was to be conducted before commercial operation so that the testing troubles noticed in operations could be rectified by the contractor. However, in both the projects, trial runs were conducted after commissioning, forfeiting the intended purpose as would be evident from the following incident.

After commissioning, Parli Unit-six underwent forced outages for 1,517 hours during November 2007 to March 2010 which resulted in loss of generation of 832 MUs. The Company had spent ` 8.58 crore for removal of defects of which only ` 0.33 crore was recovered from BHEL. The matter for recovery of remaining amount was taken up (February 2009) with BHEL which was still pending (September 2010).

The Management stated that commissioning of units before trial run was undertaken due to power shortage in the State and amount spent on repairs would be recovered from BHEL (September 2010).

The reply reflects the haphazard approach in planning capacity additions which belied the existence of a co-ordinated Electricity Policy of the State Government. Further, at the best, expenditure only on removal of defects can be recovered from BHEL and consequential loss of generation remains uncompensated.

Ongoing projects

2.2.29 The details of ongoing projects undertaken by the Company during 2005-10 were as under:

Sl. No.	Ongoing project	Capacity (MW)	Date of LOA	Scheduled period of completion (in months)	Scheduled date of trial operation	Expected date of trial operation	Expected delay as of September 2010 (in months)
A	**XI Five Year Plan[$]**						
1	Khaperkheda Expansion Unit-5	500	23.01.2007	41	22.06.2010	March 2011	9
2	Bhusawal Expansion Unit-4	500	23.01.2007	43	22.08.2010	April 2011	8
3	Bhusawal Expansion Unit-5	500	23.01.2007	47	22.12.2010	August 2011	8
4	Parli Unit-8 (Replacement)	250	20.01.2009	36	20.01.2012	November 2012	10
B	**XII Five Year Plan[$]**						
5	Chandrapur Expansion Unit-8	500	09.02.2009	41	09.07.2012	November 2012	5
6	Chandrapur Expansion Unit-9	500	09.02.2009	44	09.10.2012	April 2013	6
7	Koradi Unit-8	660	23.09.2009	51	23.12.2013	Not yet envisaged	--
8	Koradi Unit-9	660	23.09.2009	57	23.06.2014		
9	Koradi Unit-10 (Replacement)	660	23.09.2009	63	23.12.2014		
	Total	**4,730**					

[$]XI Plan period from April 2007 to March 2012 and XII Plan period from April 2012 to March 2017.

Scrutiny of records revealed that:

- As per project monitoring, co-ordination and control mechanism prescribed in DPR, the detailed Programme Evaluation and Review Technique/Critical Path Method, each project was to be monitored on monthly/fortnightly basis to compare scheduled progress with actuals. However, no such evaluation was done by the Company. The percentage of completion of above projects could not be ascertained as the project-wise financial progress was not periodically reviewed and linked with the physical progress. Thus, there was a considerable scope to improve monitoring of the progress of the projects.

- The reasons for anticipated delay were mainly impediments like delay in supply/non-sequential supply of material and lack of co-ordination. The Company had incurred capital expenditure of ` 5,975.37 crore on ongoing projects up to March 2010.

Thus, there is a need to monitor the progress of the projects closely to ensure that there would be no further delay in completion of projects.

Operational performance

2.2.30 Operations of the Company depend on input efficiency consisting of material and manpower and output efficiency in connection with PLF, plant availability, capacity utilisation, outages and auxiliary consumption. These aspects have been discussed below:

Input efficiency

Procedure for procurement of coal

2.2.31 The Company works out total annual coal requirement on the basis of designed calorific value (CV), CV of coal previously received, planned outages, targeted generation, heat rate *etc*. The coal requirement so assessed was conveyed to the Standing Linkage Committee (SLC) of the Ministry of Energy (MoE), GoI which decided the source and quantity of coal to TPS on quarterly basis. On the basis of linkage source approved by SLC, the Company was to enter into coal supply agreement with respective Coal Companies (CCs). However, the above arrangement was changed from April 2009 and SLC no longer decided the source and quantity of coal. The Company has on its own to decide requirement and make arrangement directly with the CCs by entering into separate fuel supply agreements (FSA) under the directions of Coal India Limited.

2.2.32 The position of coal linkages fixed, coal received, thermal generation targets fixed and actual generation during the period from 2005-06 to 2009-10 was as under:

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Coal linkage (In lakh MT)	336.74	339.25	393.96	409.23	395.04
Coal received (In lakh MT)	307.25	320.32	360.98	360.55	377.02
Generation targets (MUs)	40,739	46,057	47,821	47,760	47,712
Actual generation (MUs)	40,928	41,261	43,958	42,061	41,744
Shortfall in generation (MUs)	Nil	4,796	3,863	5,699	5,968
Loss of generation (MUs) due to shortage of coal receipt	Nil	Nil•	Nil•	1,129	1,224

(Source: Information furnished by the Company)

There was a loss of generation of 2,353 MUs due to shortage of coal during 2008-09 and 2009-10.

It could be seen from the above that the total linkages of coal during the five years (2005-06 to 2009-10) was 1,874.22 lakh MT. Against this, coal received was 1,726.12 lakh MT resulting in short receipt of 148.10 lakh MT (7.90 *per cent*). We observed that the Company had to operate its units at partial load due to insufficient supply of coal leading to loss of generation of 1,129 MUs (value: ` 231.50 crore) during 2008-09 and 1,224 MUs (value: ` 295.02 crore) during 2009-10. The short supply during 2008-09 was mainly on account of non-availability of adequate number of rakes from Railways. Inadequate supply during April to July 2009 (2009-10) was on account of delay in execution of new agreements with the CCs. The delay in agreements was due to lack of co-ordination among CCs and the Company.

Procurement of gas

2.2.33 The Gas based Thermal Power Station at Uran, district Raigad (GTPS) required gas of 4.7 Metric Million Cubic Meter per Day (MMCMD). As against this requirement, the Gas Authority of India Limited (GAIL) had agreed (July 2006) to supply 3.5 MMCMD of gas subject to availability. However, the average quantity of gas received during 2005-10 was less than 2.5 MMCMD. As per directives and allocation from Ministry of Petroleum and Natural Gas (MoPNG), GoI, the gas agreement with Reliance Industries Limited (RIL) was concluded for additional supply of gas of 1.0 MMCMD from KG D6 field which commenced from 24 April 2009 and 1.4 MMCMD gas from 21 April 2010.

The position of Gas allocation fixed by MoPNG, Gas received and shortfall in receipt of Gas during the period from 2005-06 to 2009-10 was as under:

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
	(MMCMD)				
Gas allocation fixed by MoPNG	1,277.50	1,277.50	1,281.00	1,277.50	1,277.50
Quantity of Gas received	899.43	936.00	871.34	1,022.55	1,203.07
Shortfall in receipt of Gas	378.07	341.50	409.66	254.95	74.43

•There was no loss of generation due to shortage of coal receipt during 2006-07 and 2007-08.

The shortfall in receipt of gas resulted in forced outages for 5,401 hours during 2005-06 to 2009-10 which led to loss of generation of 335.88 MUs.

The Management stated that short supply was mainly on account of lower supply of gas by GAIL which was beyond the control of the Company. It was further stated that the Company had entered into an agreement (April 2009) with RIL for supply of gas and subsequently the shortfall was reduced.

Coal supply arrangements

2.2.34 Coal is classified into different grades. The price of coal depends on the grade of coal. The Company had entered into (July 2003) FSAs with Western Coalfields Limited (WCL) and Singareni Coal Company Limited (SCCL) for supply of coal as approved by SLC to its various thermal power stations at different locations. For supply of coal from April 2009 onwards, the Company had directly entered (April, June and November 2009) in to FSAs with WCL, Mahanadi Coal Limited (MCL), South Eastern Coalfields Limited (SECL) and SCCL for a total supply of coal of 371.60 lakh MT[#] per annum. These FSAs were retrospectively effective from April 2009. The period of agreement was 20 years subject to review after every five years in respect of WCL, SECL and MCL and three years in respect of SCCL.

Pending Claims

As per old agreements

The coal claims of ` 76.10 crore pertaining to 2001-09 were pending with two coal Companies.

2.2.35 The Company had not entered into FSAs with SECL and MCL for coal supply up to March 2009. The claims of ` 37.46 crore for stones and shales and ` 38.64 crore for grade difference, over/under loading charges lodged by the Company pertaining to October 2001 to March 2009 were still pending with these two CCs (April 2010). Further, TPS Nashik had not submitted stones and shales claims to the Coal office at Nagpur in respect of coal received from SECL during the period October 2001 to March 2009. It indicated lack of monitoring of claims and the Company had forgone its right to receive claims in respect of coal supplied to TPS Nashik in case settlement takes place at a later date.

The Management accepted the fact and stated that the claims were lodged in line with the agreement with WCL. However, the claims were yet to be settled due to lack of specific agreement with SECL and MCL. It was further stated that TPS Nashik had submitted claims for 2008-09 and claims for earlier period were expected shortly. However, the fact remained that the claims from October 2001 to March 2008 were yet (October 2010) to be submitted by TPS Nashik.

[#] WCL-227.01 lakh MT, MCL-61.72 lakh MT, SECL-60.27 lakh MT and SCCL-22.60 lakh MT.

As per new agreements

2.2.36 As per terms of the new FSA, the sample drawn at loading points shall be analysed in the presence of the seller and the purchaser and results are binding on both the parties. Further, the seller shall give regular credit notes on account of grade slippage to the extent of difference in base price of declared and analysed grade of coal. The credit note shall be issued by the seller within seven days of acceptance of results under joint signature. The delay in issue of credit note attracted payment of interest by the seller at the Prime Lending Rate.

In this connection, we observed the following:

- The Company had not updated its Management Information System (MIS) at Power Stations/Superintending Engineer (SE) (Coal) level to generate month-wise information on number of rakes received, number of analysis reports indicating slippage in grade of coal received and number of analysis reports awaited from the sellers so that suitable remedial action could be taken. In the absence of a proper system in place, there was no regular submission of claims on monthly basis. The records indicated that WCL had issued credit notes of ` 6.75 crore in March 2010 and ` 5.93 crore in April 2010 on account of slippage in grade of coal supplied from December 2009 to March 2010. The Company had not received any such credit note from other three CCs (SECL, MCL and SCCL). In the absence of MIS, it could not be assessed in audit as to how many credit notes were due from the CCs, value of such credit notes, number of cases where analysis reports were not received and the interest payable for delay on the part of the seller.

- As per agreement, if the seller's representative was not present for joint inspection to assess the quantity of over sized stones, the assessment of the purchaser was binding and had to be communicated to the seller by the fifteenth day of the following month. However, the Company had not prescribed the modalities and time schedules for submission of such claims by the Power Stations to SE (Coal) Office and submission of consolidated claims by that office to the respective coal companies. Out of seven TPSs, Koradi TPS had not submitted any claim for stones received from April 2009 onwards. The quantity of stones assessed by Koradi TPS during 2009-10 was 1,996 MT (` 26.86 lakh) for which claims were yet to be raised (May 2010). Other TPSs were in arrears in submission of claims from July 2009 (Chandrapur and Paras), September 2009 (Bhusawal) and January 2010 (Nashik) onwards. The SE (Coal) office had not monitored submission of such claims by the respective TPSs. As a result, the Company could prefer claims of ` 2.09 crore for 15,514 MT of oversized stones against coal supplies of 66.05 lakh MT and the claims for oversized stones from the remaining quantity of 126.27 lakh MT of coal received during 2009-10 were yet to be raised (May 2010).

The Management stated that suitable computer software system would be developed for reconciliation of data and timely action on the claims. The reply was not convincing as the Management should have prescribed modalities to be followed by its various field offices for expeditious submission of claims on regular basis in the absence of a suitable software.

Excess consumption of coal

2.2.37 The consumption of coal depends upon its calorific value. The norms fixed in the project report for various power generation stations for production of one unit of power in the State *vis-a-vis* maximum and minimum consumption of coal during the period of five years ending 2009-10 is depicted below:

(In kg per unit)

Name of TPS	Consumption as per designed norms	Average minimum consumption during the year	Average maximum consumption during the year
Bhusawal	0.508	0.695 (2005-06)	Not available
Chandrapur	0.584	0.720 (2005-06)	0.965 (2008-09)
Khaperkheda	0.571	0.686 (2006-07)	0.939 (2008-09)
Parli	0.507	0.676 (2007-08)	0.963 (2008-09)

(Source: Information furnished by the Company)

The value of excess consumption of coal as compared to designed norms was ` 5,515.85 crore in four power stations during 2005-10.

From the above it may be seen that in all the four TPSs, the consumption remained higher than the norms in all the years under review. The Company stated that norms fixed by the manufacturer for the plants at Koradi, Nashik and Paras were not available. We observed that consumption above the norms resulted in excess consumption of coal to the tune of 333.33 lakh MT valued at ` 5,515.85 crore during the review period. Apart from the low calorific value transit losses and windage losses also contributed to excess consumption which could be *prima facie* controlled by the Management. Further, use of poor quality coal led to lowering of PLF by 5.60, 6.90 and 7.64 *per cent* during 2007-08, 2008-09 and 2009-10 respectively.

The particulars of coal requirement as per norms *vis-a-vis* actual consumption and excess over norm in respect of four TPSs are given below:

Sl.No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Unit generated (MUs)	28,234	27,514	29,616	29,519	29,241
2.	Coal required as per norms (In lakh MT)	157.60	153.88	166.42	165.34	163.38
3.	Coal consumed (Lakh MT)	209.32	210.92	235.17	243.17	241.37
4.	Excess consumption (Lakh MT) (3 – 2)	51.72	57.04	68.75	77.83	77.99
5.	Rate per MT (`)	1,343	1,475	1,514	1,714	2,058
6.	Coal consumed per unit (Kg.) [3 / 1]	0.74	0.77	0.79	0.82	0.83
7.	Value of excess coal (`in crore) (4 x 5)	694.60	841.34	1,040.88	1,334.00	1,605.03

The station-wise details are given in **Annexure-13**.

The Central Power Research Institute (CPRI) had recommended (December 2009) the installation of coal measuring devices without human intervention. Though, the Koradi power station had installed (February 2010) such devices at the cost of ` 26.14 lakh its performance was yet to be established (May 2010). On test check of records at Chandrapur and Koradi power stations we observed that the consumption of coal per unit of electricity generated was being worked out manually on the basis of total quantity received and closing stock. The manual system did not take into account the internal losses and the consumption reported may not be correct.

The Management stated that excess consumption of coal was mainly on account of poor quality of coal and overaging of thermal units. It was further stated that the devices for measurement of coal consumption had been installed in seven units and it would be installed in remaining 27 units in a phased manner. The coal consumption was more as the Gross Calorific Value of the coal received was not as per designed norms. However, the reply was silent on the efforts made, if any, by the Management to improve the quality of coal received by taking up the matter with coal Companies.

Transit loss of coal

2.2.38 The key factors contributing to transit loss are (a) evaporation of surface moisture in transit (b) error/deviations in weigh bridges (c) coal thefts in transit and (d) long distance involved in coal transport. MERC, while determining Annual Revenue Requirement (ARR) for the first control period from financial year 2007-08 to 2009-10, considered the transit loss of 0.80 *per cent* for all coal based power stations.

In this regard, we observed the following:

- As per the liasioning contract, the penalty for transit loss of more than 0.80 *per cent* was leviable. However, the rate of penalty varied from power station to power station and was not commensurate with the loss suffered by TPSs. Therefore, it is in the financial interest of the Company to contain the losses within norm. Further, the Company had not fixed power station-wise benchmark for transit losses to ensure that the losses were within the parameters.

- Considering transit loss at the rate of 0.80 *per cent* excess loss during 2005-10 worked out to ` 178.32 crore of which the loss during 2009-10 alone was ` 94.98 crore.

- The CPRI had observed (December 2009) in its report that the Company had not prescribed standard methodology, procedure or measurement methods for assessing transit loss. It had recommended various advance technologies such as rail tracking through communication technologies, rail signature system, installation of high tech weigh bridges *etc*. The action on the report was yet to be taken (September 2010).

The Management stated that it is difficult to standardise the losses on account of evaporation, pilferage during transit, wind loss *etc*. The reply is not convincing as the Management can evolve a baseline bench-mark based on the data compilation of loss.

Avoidable expenditure on procurement of furnace oil

2.2.39 The Company procures Furnace Oil (FO) for its Thermal Power Plants from Public Sector Oil Companies. As per supply orders prices were subject to revision by the GoI from time to time. Discount of ` 700 per Kilo Litre (KL) was payable on supply of FO during April 2007 to March 2011 by Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL). It was further stipulated that rates applicable to other Government Departments would also be applicable for the supply to the Company. The Company procured 1,32,113 KL of FO from IOCL, 2,14,092 KL from BPCL and 37,640 KL from Hindustan Petroleum Corporation Limited (HPCL) during April 2007 to March 2010.

We observed that Maharashtra State Road Transport Corporation (MSRTC) had entered into a Rate Contract (RC) with IOCL for supply of FO during three years (26 September 2007 to 25 September 2010) to its Tyre Re-treading Plant (TRP) at Nagpur offering a discount of ` 950 per KL. Thus, the discount offered to the Company was lower by ` 250 per KL than that given to MSRTC. It was further observed that there was no mechanism in place to ensure that Oil Companies did not charge higher rates for various products supplied to the Company than that charged to other Government Departments. Based on quantity of FO procured from IOCL and BPCL during 2007-08 to 2009-10, the avoidable expenditure incurred was to ` 9.60 crore[♣].

The Management stated that discount offered depends upon various factors such as market conditions, quantity of order, payment terms *etc*. It was further stated that the contract with MSRTC was finalised later (September 2007) and therefore rates were not comparable. The reply was not convincing as the period of supply and financial terms were the same. The Company should have evolved a mechanism to check the rates charged to other Government departments/PSUs so that the tender conditions could be implemented.

Manpower Management

2.2.40 Consequent upon the unbundling of the erstwhile Maharashtra State Electricity Board (MSEB) and the Company coming into existence (May 2005), State Government decided that the staff strength available in the power stations would be taken as their respective sanctioned strengths. The

[♣](1,32,113 KL from IOCL, 2,14,092 KL from BPCL and 37,640 KL from HPCL) x ` 250 per KL.

position of actual manpower, sanctioned strength and manpower as per CEA norm are given below:

Sl. No.	Particulars.	2005-06	2006-07	2007-08	2008-09	2009-10
1	Sanctioned strength	17,436	14,655	15,190	15,237	16,773
2	Manpower requirement as per the CEA norm as furnished by the Company	14,441	14,927	18,787	19,667	20,787
3	The requirement of manpower as per CEA norm[#] worked out by Audit	17,013	17,004	16,062	16,062	16,263
4	Actual manpower	14,102	14,010	14,735	14,780	15,642
5	Expenditure on salaries (` in crore)	353.18	434.28	487.80	668.02	616.41

(Source: Information furnished by the Company)

The above table shows that the overall actual manpower was less than the sanctioned strength as well as CEA norms during the period under review.

TPS, Chandrapur paid overtime of ` 23.86 crore during 2007-10, though manpower was in excess of norms.

However, during test check of records in TPS Chandrapur, we observed that actual manpower deployed was more than the sanctioned strength during the period 2006-07 to 2009-10. Notwithstanding, overtime was regularly paid during 2007-08 to 2009-10 amounting to ` 7.33 crore, ` 7.75 crore and ` 8.78 crore respectively. This indicated lack of managerial skill in deployment of manpower as payment of overtime was avoidable and could be curtailed significantly.

The Management stated that the Company had restricted over time to 25 hours per month as per the policy of the Company. It was further stated that lower class staff (Class III and IV) was not transferable. The reply was not convincing as in case of surplus staff over time payment in that category should have been avoided/minimised.

Output efficiency

Shortfall in generation

2.2.41 The yearly targets for generation of power upto 2005-06 were fixed by CEA and thereafter by MERC. We observed that the Company was able to generate a total of 2.44 lakh MUs of power during 2005-06 to 2009-10 against

[#]CEA norms for manpower per MW for Hydel (1.79 in X FYP and 1.61 in XI FYP) and Thermal including Gas (1.76 in X FYP and 1.58 in XI FYP).

the target of 2.72 lakh MUs. This resulted in a net shortfall of 0.28 lakh MUs as shown in the following table:

(In MUs)

Year	Target	Actual	Shortfall
2005-06	49,596	40,382	9,214
2006-07	53,821	50,357	3,464
2007-08	55,723	52,294	3,429
2008-09	55,658	50,398	5,260
2009-10	57,557	50,875	6,682
Total	**2,72,355**	**244,306**	**28,049**

(Source: Monthly Operational Reports for the period April 2005 to March 2010)

It would be seen from above that the Company could not achieve targets fixed by the MERC in any of the years during 2006-10 excepting 2005-06. The shortfall in generation showed an increasing trend. As the target for PLF had been fixed by MERC considering the availability of inputs, the loss of generation (28,049 MUs) during 2006-10 indicated that resources and capacity were not being utilised to the optimum level due to frequent breakdowns of units and delay in timely rectification of defects, operation of units at lower loads *etc*., as discussed subsequently.

The power station/year-wise details of energy to be generated as per MERC target, actual generation, PLF as per MERC target and actual PLF in respect of the power projects commissioned up to March 2010 are given in **Annexure-14**.

The Management stated that the loss of generation was mainly due to receipt of poor quality of coal and outages of units for repairs and maintenance. However, the loss could have been minimised by avoiding forced outages through timely maintenance.

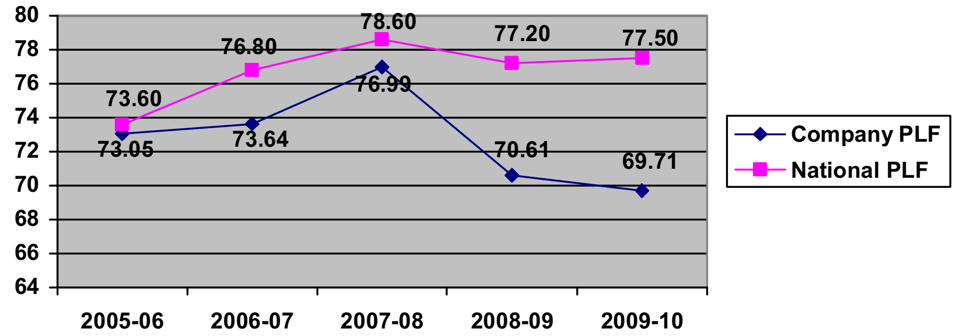
Low plant load factor

2.2.42 PLF refers to the ratio between the actual generation and the maximum possible generation at installed capacity. According to norms fixed by MERC, the PLF for thermal power generating stations was 80 *per cent,* against which the National PLF was 73.60*,* 76.80*,* 78.60*,* 77.20 and 77.50 *per cent* for the period 2005-10 respectively. The PLF

PLF of Unit VI of Kota TPS of Rajasthan Rajya Vidyut Utpadan Nigam Limited at 101.10 *per cent* was the highest among all State Sector units.

of the Company was 73.05, 73.64, 76.99, 70.61 and 69.71 *per cent* respectively and remained below national PLF as indicated below:

PLF of the Company during the review period



The details of average realisation *vis-a-vis* average cost per unit, PLF achieved, national PLF, PLF at which average cost would be recovered and the shortfall of PLF in *per cent* are given in the following table:

Sl. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Average realisation (` per unit)	1.46	1.60	1.71	2.05	2.41
2.	Average cost (` per unit)	1.41	1.51	1.59	2.04	2.32
3.	Actual PLF (*Per cent*)	73.05	73.64	76.99	70.61	69.71
4.	National PLF (*Per cent*)	73.60	76.80	78.60	77.20	77.50
5.	PLF at which average cost stands recovered (*Per cent*) (2/1 x 3)	70.55	69.50	71.59	70.27	67.11

Loss of generation due to low PLF was 10,465 MUs during 2005-10.

It could be seen from the above table that the estimated shortfall in generation worked out to 10,465[Φ] MUs (when compared with the national PLF during 2005-06 to 2009-10) resulting in loss of contribution amounting to ` 397.69 crore.

We observed that out of total 32 thermal units (6,425 MW), the number of units achieving a target of 80 *per cent* PLF decreased from 13 units in 2006-07 to seven units in 2009-10. On the other hand the number of units performing below MERC target increased from 19 units in 2006-07 to 27 units in 2009-10 as indicated in **Annexure-15**. We further observed that the number of units that operated below break even PLF (BEPLF) increased from nine units in 2005-06 to 18 units in 2009-10. Five units of Koradi, two units of Nashik, two units of Chandrapur and one unit of Parli were operating below BEPLF for three to five years during 2005-2010.

[Φ] Expected generation of 2,21,541 MUs at National PLF less actual generation of 2,09,952 MUs and Auxiliary consumption of 1,124 MUs during 2005-10.

The Management stated that the over-aging of plants and frequent repairs affected the PLF. However, the fact remained that the Company had not taken up programme for renovation/replacement of overaged units so far (September 2010).

Plant availability

2.2.43 Plant availability means the *ratio* of actual hours operated to maximum possible hours available during certain period. As against MERC norm of 84-85 *per cent* plant availability during 2006-10, the actual plant availability of thermal power plants varied between 81.18 and 88.40 *per cent* during 2005-10.

The details of total hours available, total hours operated, planned outages, forced outages and overall plant availability achieved by the Company in respect of 32-34 thermal units during 2005-10 was as under:

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Total hours available	2,80,320	2,80,320	2,98,656	2,97,840	2,97,840
2.	Total operated hours	2,27,552	2,30,176	2,61,562	2,58,196	2,63,296
3.	Total planned outages (In hours)	25,568	22,144	23,732	25,058	17,340
4.	Total forced outages (In hours)	27,200	28,000	13,362	14,586	17,204
5.	Plant availability (*Per cent*)	81.18	82.11	87.58	86.69	88.40

(Source: Information furnished by the Company)

It could be seen from the above that there was an improving trend in overall plant availability. Audit analysis, however, indicated that the plant availability was below MERC norm in respect of six units during 2006-07 which increased to nine units during 2009-10.

Low capacity utilisation

2.2.44 Capacity utilisation means the *ratio* of actual generation to possible generation during actual hours of operation. Based on national PLF at 77.22 *per cent* and the overall plant availability in the State generating Companies at 82.67 *per cent* during 2008-09, the standard capacity utilisation for Thermal Power Stations worked out to 93.41 *per cent*. We observed that the capacity utilisation of the Company decreased from 89.99 *per cent* in 2005-06 to 78.86 *per cent* in 2009-10.

The Management stated that poor quality of coal and overaging of plants resulted in operation of units at lower load which ultimately resulted in low capacity utilisation.

Outages

2.2.45 Outages refer to the period for which the thermal plant remains closed for attending to planned/forced maintenance. We observed the following:

- The total number of hours lost due to planned outages decreased from 25,568 hours in 2005-06 to 17,340 hours in 2009-10 *i.e.* from 9.12 to 5.82 *per cent* of the total available hours in the respective years.

- The forced outages decreased from 27,200 hours in 2005-06 to 17,204 hours in 2009-10 *i.e.* from 9.70 to 5.78 *per cent* of the total available hours in the respective years. The overall power station-wise forced outages remained less than the norm of 10 *per cent* fixed by CEA in all the five years ending 31 March 2010. However, the forced outages in respect of four to nine units during 2005-10 were in excess of the norm of 10 *per cent* prescribed by CEA and ranged from 884 to 7,618 hours per unit.

The Management accepted that these units were under shut down for various major repair works.

Auxiliary consumption of power

2.2.46 Energy consumed by power stations themselves for running their equipments and common services is called auxiliary consumption. MERC fixed target for auxiliary consumption ranging from 8.68 to 9.07 *per cent* for thermal power plants during 2006-07 to 2009-10. However, the actual auxiliary consumption was more than the target and ranged from 8.74 *per cent* in 2005-06 to 10.39 *per cent* in 2009-10 resulting in excess consumption of 1,076 MUs valued at ` 246.05 crore which could not be dispatched to the grid.

Wanakbori TPS of GSECL was the best performer and achieved the lowest auxiliary power consumption at 7.05 *per cent* during 2008-09.

The Management stated that the auxiliary consumption was more due to poor quality of coal and wet coal received during rainy season.

Repairs and maintenance

2.2.47 To ensure long-term sustainable levels of performance, it is important to adhere to periodic maintenance schedules. The efficiency and availability of equipment is dependent on the strict adherence to annual maintenance and equipment overhauling schedules. Non-adherence to schedule carry the risk of the equipment consuming more coal, fuel oil and a higher risk of forced outages which necessitate undertaking of R&M works. These factors lead to increase in the cost of power generation due to reduced availability of equipments which affect the total power generated.

In this connection, we observed that:

- Maintenance as per time schedule was taken up only in respect of one unit (Parli Unit-one) during 2008-09.
- Maintenance was planned but not taken up in respect of three, 11, 6, 9 and 17 units during 2005-10 respectively.
- Delay in taking up maintenance ranged from 100 to 200 days in respect of 23 units and more than 200 days in respect of 10 units during 2005-10.

Delayed maintenance caused continuous deterioration in the condition of the machines causing forced outages* besides increased consumption of oil, coal and loss of generation of power by lowering PLF from 8.83 to 13.57 *per cent* during 2007-08 to 2009-10.

The Management stated that the maintenance schedule could not be observed due to power shortage in the State. It was further stated that the maintenance schedule would be followed from 2010-11. The stated reason was not justifiable as the compromise with technical requirement would lead to major repairs or breakdown of generating units.

Financial Management

2.2.48 Efficient fund Management is the need of the hour in any organisation. This also serves as a tool for decision making, for optimum utilisation of available resources and borrowings at favourable terms at appropriate time.

The power sector companies should, therefore, streamline their systems and procedures to ensure that:

- Funds are not invested in idle inventory;
- Outstanding advances are adjusted/recovered promptly;
- Funds are not borrowed in advance of actual need; and
- Swapping of high cost debt with low cost debt is availed expeditiously.

The main sources of funds were realisation from sale of power, loans from State Government/Banks/Financial Institutions (FI), *etc*. These funds were mainly utilised for setting up new projects, to meet payments of employees and administrative costs, debt servicing and system improvement works of capital and revenue nature.

*Forced outages is closure of plant due to break down in the system.

Details of sources and utilisation of resources on actual basis for the Company for the years 2006-07 to 2009-10 are given below:

(` in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10 (Provisional)
Cash Inflow					
1.	Net Profit/(loss)	233.52	300.03	84.10	203.40
2.	Add: adjustments	742.44	519.56	746.00	1,039.86
3.	Operating activities	52.41	1,239.73	2,181.20	220.24
4.	Investing activities	26.42	58.05	182.06	3.53
5.	Financing activities	1,417.25	2,012.71	3,893.03	11,460.14
6.	**Total**	**2,472.04**	**4,130.08**	**7,086.39**	**12,927.17**
Cash Outflow					
7.	Operating activities	591.18	1,765.85	2,044.82	1,475.67
8.	Investing activities	1,670.40	2,276.46	4,416.35	4,415.93
9.	Financing activities	196.26	120.60	448.35	7,009.54
10.	**Total**	**2,457.84**	**4,162.91**	**6,909.52**	**12,901.14**
Net increase/(decrease) in cash and cash equivalent		**14.20**	**(32.83)**	**176.87**	**26.03**

We observed that dependence on borrowed funds increased during the review period from ` 2,413.74 crore in 2005-06 to ` 12,987.99 crore as at the end of 2009-10 mainly on account of taking up of new projects. This entailed interest burden of ` 2,651.39 crore during the review period. Therefore, there was an urgent need to optimise internal resource generation by enhancing the PLF to national level.

As per the guidelines of Central Electricity Regulatory Commission (CERC) the TPS has to maintain spares of ` four lakh per MW of installed capacity. The value of spares to be maintained by seven TPSs on the basis of CERC guidelines worked out to ` 272 crore. As at the end of March 2010, the TPSs held stock of spares valued at ` 328.35 crore which was in excess of the norm by ` 56.35 crore. This resulted in locking up of funds and corresponding loss of interest (at nine *per cent*) of ` 5.07 crore per annum.

The Management justified that excess stock was maintained to cater to annual and capital overhaul of units and that stock remained in stores as the overhaul works were postponed. It was further stated that the stock could have been reduced by ` 9.48 crore if the maintenance was done as per schedule. The reply was not convincing as the value of stock was still higher by ` 46.87 crore even after excluding the stock required for annual and capital overhaul.

Claims and dues

2.2.49 The Company sells energy to MSEDCL at the rates specified by MERC from time to time. MERC fixes the tariff rates after considering various economic and other factors.

The table below gives the details of energy bills raised on Distribution Company, recoveries there against and coal bills received *vis-a-vis* payments made for the review period.

(` in crore)

Sl. No.	Details	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Energy bills on MSEDCL	5,784	10,767	7,736	9,306	9,683	**43,276**
2.	Amounts received	1,359	13,913	7,269	8,681	10,586	**41,808**
3.	Difference (1-2)	4,425	(3,146)	467	625	(903)	**1,468**
4.	Coal bills received	3,276	3,216	3,856	4,099	3,623	**18,070**
5.	Payments made	3,255	3,216	3,856	4,110	3,769	**18,206**
6.	Difference (4-5)	21	-	-	(11)	(146)	**(136)**[@]

Energy bills were not being recovered promptly leaving a shortfall of ` 1,468 crore during review period.

It would be seen from the above table that during the review period against energy bills of ` 43,276 crore an amount of ` 41,808 crore was recovered leaving a shortfall of ` 1,468 crore. Thus, energy bills were not being recovered promptly.

Tariff fixation

2.2.50 As per MERC Regulations, 2005, the Company is required to submit Aggregate Revenue Requirement (ARR) and tariff petition to MERC for approval. Application for tariff shall be made to MERC not less than 120 days before the date on which tariff is intended to be made effective. The Company filed ARR and tariff petitions in time. MERC considered (March 2010) actual performance as norms for the period 2005-06 to 2007-08 and directed the Company to provide unit-wise and station-wise details of actual availability and PLF based on CPRI recommendations from 2008-09 onwards to enable the Commission to consider fixing of achievable targets.

The Management stated that the Company will submit the requisite details to MERC.

Environmental issues

2.2.51 The following deficiencies were noticed in respect of environmental aspects:

- The installation of Electrostatic Precipitators supplied by BHEL for TPS, Parli Unit-six recorded Suspended Particulate Matters levels ranging from 80 to 149 mg/nm3 as against the designed level of 50-70 mg/nm3.
- The on-line monitoring equipments were not installed in 22 (Parli-six, Koradi-seven, Nashik-five and Chandrpur-four) out of 34 thermal units as required under the Environment (Protection) Act, 1986.

[@]This is due to advance payment made to Coal Companies.

- The Maharashtra Pollution Control Board had issued (December 2009) a show cause notice to TPS, Parli for violation of environmental norms and had warned legal action for various violations. Bank guarantee of ` 10 lakh for violation was also not deposited by the Company.

- Noise levels were above prescribed level at TPS, Khaperkheda (80 to 96 db), Paras (88 to 97 db), Bhusawal (75 to 90 db) and Parli (55 to 95 db) during the period under review as against the prescribed level of 75 db during day and 70 db during night.

- The interlocking system had not been installed in TPSs which can stop production automatically in case pollution control devices become non-functional.

- Out of the total fly ash of 568.29 lakh MTs generated, only 194.77 lakh MTs was utilised during the period of review.

The Management/State Government stated that majority of thermal units were very old and they were designed as per the norms prevailing at that time. It was further stated that the Company has taken various steps to minimise the pollution.

Monitoring by top Management

MIS data and monitoring of service parameters

2.2.52 The Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there should be documented Management systems of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant.

In this regard, we observed the following:

- The Company had not prepared a rolling Corporate Plan for R&M and replacement of over-aged units in a phase manner.

- In the absence of proper planning, the R&M/LE programme of over-aged units (more than 25 years) could not be implemented in time.

- A reliable and comprehensive MIS is not in existence.

- A Monthly Operational Review Meeting (MORM) is held every month which is presided by Director (Operations/Finance). The outcome of the Review Meeting is reviewed by the Managing Director. MORM mechanism is not comprehensive as it did not address deficiencies with problem areas such as replacement of over-aged thermal units, poor quality of coal and shortage of gas, co-relation of physical progress on ongoing projects with financial cost *etc*.

- The Company had not updated its MIS to generate information on coal receipt through various means of transport, receipt of number of analysis reports, quantity covered by such reports, number of analysis reports indicating slippage in the grade of coal and number of rakes where test results were awaited from the sellers for remedial action in case of slippage in the grade of coal.

- The Board of Director did not evaluate the socio economic parameters to analyse the success rate of the on-going projects or positive impact on the socio-economic parameters through an appraisal of Corporate Social Responsibility aspects.

- Environment Impact Assessment Study was not conducted to assess the environmental sustainability of on-going efficiency improvement measures.

Acknowledgement

2.2.53 Audit acknowledges the co-operation and assistance extended by different levels of the Management at various stages of conducting of the performance audit.

Conclusion

- **The State Government and the Company did not plan capacity additions to achieve the objectives of NEP to provide power for all by 2012. The deficit at the end of 2009-10 was more than 4,000 MW. The Company had not prepared a rolling Corporate Plan which was essential for a vital infrastructure sector like the power sector.**

- **Adequate land acquisition/statutory clearances were not factored into planning new projects.**

- **The availability of power in the State ranged from 66.36 to 74.86 *per cent* of the total peak demand and 70.67 to 75.01 *per cent* of the total average demand.**

- **The Company had pending claims of ` 76.10 crore on account of stones/shales and slippage in grade with SECL and MCL.**

- **The Company had not developed MIS necessary for preferring claims under new agreements on account of stones and slippage in the grade of coal on month to month basis.**

- **The transit loss over and above the norm worked out to ` 178.32 crore during review period. Notwithstanding, the Company had not fixed power station-wise bench mark for transit loss so that abnormal losses could be identified and action taken.**

- **The Company had not pursued with MSEDCL to recover outstanding dues of ` 1,468 crore.**

Recommendations

- **The State Government needs to focus on formulating an integrated policy on electricity to monitor achievable time-frame for completion of power projects.**

The Company should consider:

- **preparing Corporate Plan for monitoring physical and financial progress of on-going projects and develop strategic mechanism to fast track completion of delayed projects.**
- **undertaking trial run before commercial operation of the plant to avoid frequent outages due to improper installation.**
- **take up repair and maintenance/life extension programmes in time and replace old thermal units in a phased manner.**
- **its MIS to generate data enabling it to prefer claims on Coal Companies for quality slippages.**
- **fixing the power station-wise bench mark for transit loss of coal so that abnormal losses could be identified for suitable corrective action.**
- **vigorously pursue with the SECL and MCL for pending claims on account of stones/shales and slippage in quality of coal relating to the period from October 2001 to March 2009.**
- **Should pursue vigorously to realise promptly outstanding energy bills from MSEDCL.**